

UNIVERSITÉ DE GENÈVE
INSTITUT UNIVERSITAIRE DE HAUTES ÉTUDES INTERNATIONALES

AGRICULTURAL POLICY
AND TRADE LIBERALIZATION
IN THE UNITED STATES
1934 TO 1956

A STUDY OF CONFLICTING POLICIES

THÈSE

PRÉSENTÉE A L'UNIVERSITÉ DE GENÈVE
POUR L'OBTENTION DU GRADE DE DOCTEUR ÈS SCIENCES POLITIQUES

PAR

ALLAN FRANCIS RAU, JR.

DES
ÉTATS-UNIS D'AMÉRIQUE
B.A., M.B.A., STANFORD UNIVERSITY

THÈSE N° 108

LIBRAIRIE E. DROZ

8, RUE VERDAINE
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La Commission Mixte, composée des Doyens des Facultés de Droit, des Lettres, et des Sciences économiques et sociales, et du Directeur de l'Institut Universitaire de Hautes Etudes Internationales, sur le préavis de MM. Jacques FREYMOND, Louis J. HALLE, Michael A. HEILPERIN et Wilhelm RÖPKE, professeurs à l'Institut Universitaire, autorise l'impression de la présente thèse, sans entendre par là exprimer d'opinion sur les propositions qui y sont énoncées.

Genève, le 28 janvier 1957.

Pour la Commission Mixte :

Jacques FREYMOND,

Directeur de l'Institut Universitaire.

Thèse N° 108.

To My Parents

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A.F.R. Jr.

Geneva, January, 1957.

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INTRODUCTION

A. BACKGROUND OF THE PROBLEM

At the Eleventh Session of the Contracting Parties to the General Agreement on Tariffs and Trade (GATT)¹ which opened at the Palais des Nations in Geneva, Switzerland on October 11, 1956 the United States' delegates once again found themselves in an extremely embarrassing position. On the one hand, they were striving to reduce the many barriers to world trade which, since World War I, have increasingly hindered international exchange of goods. On the other hand, they were bound by legislative acts which required them to demand special treatment for United States agriculture. This, briefly, was the conflicting set of instructions that the United States delegates to the GATT conference were given. They were thus forced to fight for more liberal international trade with hands tied together by United States agriculture.

Probably the most important dispute that has not been solved through the GATT machinery is the case of United States import restrictions on dairy products. At the Sixth Session of the Contracting Parties to the GATT in 1951, Denmark, the Netherlands, Canada, Australia, New Zealand, Italy, Norway and France lodged a formal complaint against the United States, and the Contracting Parties stated that these import restrictions, authorized by Section 104 of the 1950 Defense Production Act, were a violation of the General Agreement.² The United States delegation had not a single argument in reply to the facts stated, and it was forced to agree.³ As a consequence of United States law, however, the United States could not act in accordance with the recommendations of the Contracting Parties. In September 1951 an editorial in *The New York Times* stated:

¹ See below, pp. 112-113.

² Press Release GATT/224, *Survey of the Ninth Session of the Contracting Parties to the General Agreement on Tariffs and Trade*, Information Center European Office of the United Nations, 17 March, 1955, p. 6.

³ *The New York Times*, October 29, 1952, p. 1.

"A piece of legislation that hurts the American consumer, undercuts the basic principles of the Marshall Plan and benefits only the dairy interests of the United States was tacked on as a rider to the Defense Production Act recently. The Administration is now seeking its repeal on the very good grounds that the rider is, in the President's words, 'unnecessary for the protection of domestic producers' and 'contrary to our national policy of reciprocal trade agreements'. It is worse than that: it is an example of Congressional subservience to pressure groups under cover of the irrelevant mantle of 'national defense'. . . .

The measure has had a most damaging effect on our whole foreign trade policy. Since its enactment ceilings have had to be put on the importations of foreign cheese at a level about 40 % below the annual rate of recent imports. Such countries as Denmark, the Netherlands and Italy are thereby deprived of millions of dollars of vital dollar exchange; and yet, as Assistant Secretary of State Thorp has pointed out, an export trade that is so important to some countries of Western Europe represented in 1950 a mere 5 per cent of total American production of cheese.

By closing the door to this tiny fraction of the American market we obviously injure E.C.A. efforts to build up European dollar-earning exports to the United States, we destroy the confidence of our European friends in the consistency — even the sanity — of American trade policy and we violate our own commitments in the General Agreement on Tariffs and Trade . . . Unless we wish to destroy faith in the sincerity of American efforts to liberalize international trade and to help Europe stand on its own feet Congress ought to repeal this arbitrary and cynical measure." ⁴

In 1952 the Netherlands, one of the affected countries, requested permission from the Contracting Parties to take compensatory action to restore the balance between the concessions it had made and those it had received in return. The Contracting Parties held that:

"Considering information relating to the damage suffered by the Netherlands through limitations on its ability to sell its products in the United States market, . . . the Netherlands Government . . . (could) suspend the application to the United States of their obligations under the General Agreement to the extent necessary to allow the Netherlands Government to impose an upper limit of 60,000 metric tons on imports of wheat flour from the United States during the calendar year 1953." ⁵

⁴ September 15, 1951, p. 14.

⁵ Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents*, First Supplement, Geneva, March 1953, pp. 32-33.

The same authorization was given for 1954, 1955 and 1956.⁶

When the compensatory action was first authorized in October 1952 *The New York Times* wrote:

“Whether American farm interests, as represented in Congress, and Department of Agriculture officials can be influenced by the retaliation to recognize the connection between American agricultural policy and American international trade policy is something none of the delegates here (Geneva) is prepared to bet much on. It is clear, however, that a strong effort to make clear to American farmers beyond any doubt that ‘trade is a two-way street’ has been formally launched today by countries all of which would prefer not to be in the role of teachers of this rather ancient principle.”⁷

When, in October 1953, the Contracting Parties authorized the Netherlands to continue to restrict imports of United States wheat flour during calendar year 1954, they recommended to the United States Government that:

“... it have regard to the harmful effects on international trade relations of the continued application of the present restrictions.”⁸

The United States did not heed the warning.

On June 30, 1953 Congress allowed Section 104 of the 1950 Defense Production Act to lapse but only after President Eisenhower agreed to continue import restrictions on dairy products under Section 22 of the Agricultural Adjustment Act of 1933 as amended in 1935 and subsequently.

In order to accommodate the United States, Article XI of the General Agreement on Tariffs and Trade reads as follows:

“General Elimination of Quantitative Restrictions

1. No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for

⁶ Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents: Second Supplement*, Geneva, January 1954, p. 28; *Third Supplement*, Geneva, June 1955, p. 46; *Fourth Supplement*, Geneva, February 1956, pp. 31-32.

⁷ October 29, 1952, p. 7.

⁸ Press Release GATT/138, *Imports of Dairy Products: Resolution Adopted*, Information Center European Office of the United Nations, 13 October, 1953.

export of any product destined for the territory of any other contracting party.

2. The provisions of paragraph 1 of this Article shall not extend to the following:

(a) ...

(b) ...

(c) Import restrictions on any agricultural or fisheries product, imported in any form, necessary to the enforcement of governmental measures which operate :

(i) to restrict the quantities of the like domestic product permitted to be marketed or produced, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted; or

(ii) to remove a temporary surplus of the like domestic product, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted, by making the surplus available to certain groups of domestic consumers free of charge or at prices below the current market level; or

(iii) to restrict the quantities permitted to be produced of any animal product the production of which is directly dependent, wholly or mainly, on the imported commodity, if the domestic production of that commodity is relatively negligible.

Any contracting party applying restrictions on the importation of any product pursuant to sub-paragraph (c) of this paragraph shall give public notice of the total quantity or value of the product permitted to be imported during a specified future period and of any change in such quantity or value. Moreover, any restrictions applied under (i) above shall not be such as will reduce the total of imports relative to the total of domestic production, as compared with the proportion which might reasonably be expected to rule between the two in the absence of restrictions. In determining this proportion, the contracting party shall pay due regard to the proportion prevailing during a previous representative period and to any special factors which may have affected or may be affecting the trade in the product concerned.”⁹

This exception to the general GATT rule prohibiting quantitative restrictions does not, however, cover all of the cases of quantitative restrictions authorized under Section 22. Thus, a further exception

⁹ Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents*, Volume I (Revised), Geneva, April 1955, pp. 22-23.

in the case of the United States was required if United States actions were not to continue to be in violation of the GATT. In the course of the review of the GATT by the Contracting Parties at their Ninth Session, the Contracting Parties granted a waiver, in the form of a decision, dated March 5, 1955, not actually included in the GATT, to the United States allowing her to impose import restrictions where she is authorized to do so under Section 22, regardless of the provisions in the GATT, but at the same time preserving the right of the injured countries to have recourse to the procedures of the GATT for adjustment through negotiations or otherwise.¹⁰ The waiver not only permits import quotas which could not previously be imposed consistently with the GATT, but also permits increased tariffs on agricultural commodities on which the United States tariff had been bound.¹¹ In granting the waiver, the Contracting Parties to the GATT declared that:

“... they regret that circumstances make it necessary for the United States to continue to apply import restrictions which, in certain cases, adversely affect the trade of a number of contracting parties, impair concessions granted by the United States and thus impede the attainment of the objectives of the General Agreement.”¹²

The general dissatisfaction with the waiver was expressed cogently by Professor G.E. Britnell when he wrote in February 1956 that:

“Presumably Canadians may take comfort from the thought that if they get hurt henceforth the injury will not have been illegally inflicted.”¹³

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This work is a study of the conflicting policies of United States agriculture and United States foreign trade. In 1934, the United States finally woke up to the fact that her creditor position would not allow her to continue to raise her tariff walls every few years, and, with the passage of the Reciprocal Trade Agreements Act, she deserted high protectionism and started on a slow course toward

¹⁰ Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents*, Third Supplement, pp. 34-35.

¹¹ United States Council of the International Chamber of Commerce, *The Organization for Trade Cooperation and the New G.A.T.T.*, New York, 1955, p. 9.

¹² Contracting Parties to the General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents*, Third Supplement, p. 35.

¹³ “The Implications of United States Policy for the Canadian Wheat Economy”, *The Canadian Journal of Economics and Political Science*, Vol. XXII, No. 1, February 1956, p. 10.

freer international trade. On the other hand, the agricultural policy of the United States has aimed at putting farmers in a better relation with respect to other segments of the economy. Starting with the Agricultural Adjustment Act of 1933, the agricultural policy of the United States has necessitated increased restrictions on foreign trade in direct conflict with the general trade liberalization movement which the United States Government has launched and is striving to get the other non-communist nations to join. Succinctly stated, then, the conflict is between trade liberalization and the present means used to attain agricultural "equality" or "parity" with the rest of the economy.

The conflict of policies has not gone unnoticed by other nations. For example, in March 1956 former President Luis Battle Berres of Uruguay accused the United States of pursuing a policy which is driving Uruguay and other Latin American nations into closer economic relations with the communist nations, for, as he stated:

"The United States does not buy things we produce. On the other hand, it is destroying our markets in other parts of the world by giving away wheat, butter, fats."¹⁴

B. PROBLEM IN GENERAL TERMS

The problem of agricultural protection and the conflict of policies arising therefrom is not confined to the United States. Almost all highly industrialized nations steadfastly protect their agricultural segments from foreign competition. Consequently, agricultural protection is continually holding back efforts to liberalize trade. For example, one of the greatest obstacles to the proposed European "Common Market" is the unwillingness of the nations involved to give up agricultural protection.

The peculiar position of agriculture within our highly developed capitalistic economy gives rise to special problems that easily serve as motives or pretexts for protective measures. Briefly, some of the special features of agriculture that make agriculture's position distinct from the other branches of production can be described as follows:

1. Agriculture is a biological industry which is subject to natural forces.
2. The forces controlling supply and demand are of a special character in the case of agriculture.

¹⁴ *Herald Tribune* (European Edition), March 2, 1956, p. 3.

3. Agriculture has its own peculiar problems in regard to credit, ownership, leasehold tenure and inheritance which may result in overindebtedness.

4. Agriculture must contend with a special labor problem.

5. The sociological peculiarities of agriculture make it not just a business but a way of life.¹⁵

A further analysis of two points will throw added light on the general problem of agriculture in an industrial society. The general problem of agriculture in an industrial society today springs partly from what appears to be a general pattern of development — that in an expanding economy there is, in the long run, a slowing down in the growth of the demand for agricultural commodities and an acceleration of the supply. The problem, therefore, is one of agricultural surpluses and of moving an excess supply of resources out of agriculture. At present, resources do not leave agriculture fast enough. Consequently, there is underemployment in agriculture, and agricultural output is persistently greater than can be sold at prices which would make agricultural incomes equivalent to non-agricultural incomes. As Professor Theodore W. Schultz pointed out in his book *Agriculture in an Unstable Economy*,¹⁶ the main forces creating this pattern of development are a slackening in population increase, the effect of the low income-elasticity of agricultural commodities as people become richer, and the agricultural technological revolution.

The general problem of agriculture in an industrial society today also springs from the fact that the output of the agricultural segment of the economy generally is not reduced during depressions. During depressions industrial firms tend to lay off workers and reduce the quantity offered in the market rather than to reduce their sales prices drastically. This is not true for agriculture. Since agriculture in free economies is almost perfectly competitive, production is not curtailed during periods of depression. Under the atomistic competitive conditions that exist in the agricultural segment of free economies, no one farmer feels that by reducing production he can improve his economic position. The market for his crops appears almost infinitely elastic. In fact, when prices for agricultural products fall, the individual farmer tends to increase rather than decrease his output in order to meet high fixed charges. A large percentage of farmers' total investment is in land and fixed capital. Reduction of the labor force in agriculture at first glance appears to be impossible because

¹⁵ See Wilhelm Röpke, *The Social Crisis of Our Times*, London, 1950, pp. 244-245.

¹⁶ New York, 1945, p. 44.

of the inertia of the agricultural population and the large measure of self-sufficiency which characterizes farming in most countries. The farmer can not lay off large numbers of workers, as is possible in other industries, since a large percentage of farm labor is self-employed.¹⁷ Thus, because of the low price elasticity of demand for many agricultural commodities and the constant or increased supply¹⁸ of farm products, the prices of agricultural commodities generally fall drastically. The drop in agricultural commodity prices is usually so great that even with the usual increased output, the product of price times quantity of agricultural commodities produced is almost certain to fall. There is thus a drop in farmers' gross income. Since the prices of the industrial goods farmers buy fall much less during depressions than do the prices of agricultural commodities, the fluctuations in net agricultural income are very marked.

Similarly, improved technology does not improve the farmer's economic position if increased output results in such drastically reduced prices that the product of price times quantity of agricultural commodities produced is not increased. In order for the farmer's economic position to be improved, there must be a certain balance between production and consumption of specific agricultural commodities. Industrialization has brought changes in the demand for specific agricultural commodities. In the first stage of industrialization there is an increased demand for staple products. Later, there is a shift from coarser to finer staple products and from the cheaper to more valuable animal products. Finally, there is a shift from staples to "protective foods". Also, there has been, and continues to be, a reduction in the demand for various agricultural commodities as a result of non-agricultural competition. For example, oats have been replaced by gasoline, natural fibers are being replaced by synthetics, and butter is being replaced by oleomargarine partially made from whale fat. Consequently, there must be flexibility within agriculture.

Armed with the argument that agriculture is faced with special problems resulting from structural disadvantages, agricultural interests in all nations argue for special protection so that market-oriented agriculture can receive the same treatment as industry and exist in

¹⁷ Approximately 80 per cent of United States farm labor is provided by the farm owner and his family. For a discussion of the problem of the movement of farm population out of agriculture see below, pp. 134-136.

¹⁸ There may be great fluctuations in yield due to the weather. These fluctuations, however, can not be predicted and, therefore, do not enter our analysis. These fluctuations in yield due to the weather strengthen the argument for special aids for the agricultural segment of the economy.

a highly capitalistic economy. This argument falls on receptive ears in nations where the doctrine of agrarian "fundamentalism",¹⁹ a doctrine which can be traced back to the economic theory of the physiocrats of the 18th Century, is accepted, as is the case in most countries. The doctrine has a very strong hold on Germany, France, and Switzerland, and, consequently, agricultural nationalism reigns supreme in these nations. Wherever national self-sufficiency in food-stuffs is accepted for military security reasons, as is the case in Switzerland, agricultural protectionism finds almost no opposition.

Experience has shown that agricultural protectionism easily degenerates into protection of vested interests. Almost certainly, agricultural protectionism means that the economically undesirable segments of agriculture are conserved to the disadvantage of more desirable forms.

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The conflict between the agricultural policy and the commercial policy of the United States arises from the measures used to minimize the impact of the excess capacity in United States agriculture on farm income. Specifically, the conflict of policies results from a policy of supporting domestic agricultural prices above world prices or the prices that would prevail in the United States under conditions of a relatively free market. The parity concept is at the heart of the conflict of policies.²⁰ Parity prices²¹ are related only to industrial prices and have no relation to world prices. Parity prices are accepted as goals of agricultural programs, and prices are supported at specified percentages of parity regardless of the amounts produced or of world prices. Prices that are supported above their free market level not only lose the capacity to adjust to changing conditions but tend to further augment existing imbalance. They encourage increased domestic output and productive capacity. At the same time they provide some limiting effect on domestic consumption and exports. Furthermore, when market prices fall below support prices government inventories accumulate. In order to provide some limit to the cost of the price-support program, domestic production is controlled, imports are restricted, and export markets are looked to as an outlet for disposing of the surpluses.

¹⁹ Agrarian "fundamentalism" is the doctrine that agriculture is the foundation of national prosperity more than any other industry or occupation. See below, pp. 37 and 64, footnote 3.

²⁰ The parity concept is also at the heart of the problem in other nations, e.g. Germany.

²¹ Parity prices are the prices that give agricultural commodities a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of agricultural commodities in a base period.

The government-supported price, in addition to being attractive to domestic producers, tends to attract increased imports from other agricultural producing areas. The Federal Government is then led to taking action to restrict imports under the impact of the peculiar logic of its farm-price policies.

Nor is this all. The large government-owned inventories of agricultural commodities create an atmosphere in which it becomes increasingly tempting to resort to a variety of schemes to expand exports by selling agricultural commodities abroad at whatever prices they will bring. This, of course, constitutes dumping whenever the export sales price is below the domestic government-supported price. Other nations frequently react to the efforts of the United States to increase or at least maintain agricultural commodity exports with the aid of the United States Treasury by increasing their barriers to United States goods or continuing existing barriers which the United States would like to have lowered or removed. The various schemes to expand exports of agricultural commodities transfer from private trade to the Federal Government the responsibility for decisions regarding amounts, grades, destinations and prices of agricultural commodities exported. Still, opposition to state trading is a cornerstone of United States commercial policy!

It is clear that this conflict of policies does harm to international economic relations. In 1949 the Council on Foreign Relations published a study by Professor C. Addison Hickman entitled *Our Farm Program and Foreign Trade*. In 1950 John Wiley and Sons, Inc. published Professor D. Gale Johnson's book, *Trade and Agriculture*. Since then many excellent articles and brief studies have dealt with the conflict between the agricultural and foreign trade policies of the United States. However, as far as the author of this study has been able to determine, no complete work has been published on this subject since 1950. Much has happened since then, and the conflict of policies has further grown in importance. Under these circumstances it seems to this writer that there is both scope and need for an up-to-date study on this subject.

This study will show: first, why the conflict developed; second, how the conflict developed; third, what the conflict has caused; fourth, what solutions have been suggested.

PART 1

ROOTS OF THE CONFLICT

A. INTRODUCTION

The conflict between agricultural policy and foreign trade policy in the United States developed because, starting in 1921, the agricultural segment of the economy found itself in a depressed and unfavorable position in relation to the rest of the economy, and, as pointed out in the introduction to this study, the methods used since 1933 to correct this situation necessitate foreign trade restrictions diametrically opposed to the general trade liberalization movement in the United States, which started in 1934. The first section of this part of the study points out why United States agriculture originally found itself in this depressed and unfavorable position. The next section analyzes the various attempts made to correct this situation and brings into relief the path that led to the present solution of the agricultural problem, the methods of attainment necessitating restrictions on international trade.

B. PROBLEMS OF AGRICULTURE

1. WORLD WAR I PERIOD.

With the advent of war in Europe in 1914, 50 million acres of agricultural land in Europe, excluding Russia, were removed from cultivation.¹ The remaining land had to be cultivated by a reduced and less capable labor force, with resulting lower output per acre. Weather also was not favorable, and in 1916 a wheat crop failure occurred in France and England.

At the same time, a tremendously increased need for agricultural products developed out of the exigencies of the conflict. A vast amount of food and clothing was destroyed or captured by submarines and the invading or retreating armies or used lavishly by the military forces. The civilian population worked harder and thus consumed more food. When the United States entered the war a similar increased demand for agricultural products took place in that country.

¹ Henry A. Wallace, *America Must Choose*, Foreign Policy Association and World Peace Foundation, New York, 1934, p. 4.

The First World War greatly increased the purchase of agricultural products in the United States. United States' allies were separated by war zones from their normal markets of Russia, Rumania and Bulgaria, while submarine warfare cut off their imports from India, Australia and Argentina. Argentina's wheat ports are, in fact, closer to England than are some of the United States ports, but it was necessary to concentrate trade into one great highway of transport in order to simplify the task of naval convoy. In addition, the fact that the United States was in the war, whereas Argentina was not, tended to throw the trade more completely into the United States' hands. Furthermore, the United States Government made large financial advances to the Allied Governments after 1917, thus facilitating increased purchases of United States agricultural commodities.

Neutral countries of Europe also increased their imports of United States agricultural products. The total agricultural imports of several neutral countries rose above their prewar level, which implied that, at least during the early years of the war, some of the agricultural products found their way into enemy countries. Thus, blockaded though they were, the war needs of Germany and her allies contributed to the pressure of foreign buying in the United States.²

As a consequence of all these factors, United States' exports of agricultural products during the war more than doubled prewar quantities.³ In 1915, for example, 243 million bushels of wheat, or more than twice the prewar level, were exported.⁴ In addition to the greatly increased purchasing of agricultural products of the United States by her allies and by neutral countries of Europe, nearly full employment and high wages in the United States increased the domestic purchase of agricultural products.

During the early days of the war, the increased demand for American agricultural products made itself manifest only gradually, and agricultural prices did not rise.⁵ After about a year of relative stability, however, the general price level of agricultural products showed a marked rise. Europe was purchasing agricultural products under the spur of grim necessity for the prosecution of a war. Purchases were not limited by the ordinary practices of payment from current income, but were financed by the liquidation of assets and, after 1917, by the extension of credit by the United States Govern-

² Edwin G. Nourse, *American Agriculture and the European Market*, New York, 1924, p. 52.

³ Mordecai Ezekiel and Louis H. Bean, *Economic Bases for the Agricultural Adjustment Act*, United States Department of Agriculture, 1933, p. 32.

⁴ Herman E. Krooss, *American Economic Development*, Englewood Cliffs, N.J., 1955, p. 165.

⁵ See figure in Appendix.

ment. As early as 1914 United States securities began to move out of the hands of Europeans.⁶ Dollar values of United States' exports of agricultural products in 1917 exceeded those of 1913 by 164 per cent.⁷ Under then existing conditions, the demand for United States agricultural products showed no sign of slackening as prices advanced, and speculative activity accelerated to the fullest degree the advance of agricultural prices.

The rate at which individual prices rose varied greatly both in time and degree. Generally, however, as is usually the case in inflationary periods of wartime, agricultural commodity prices rose faster and farther than other prices, and farmers' profits continued to rise.⁸ Cotton, which averaged less than 11 cents a pound in the ten prewar years, averaged approximately 28 cents during 1917 and 1918.⁹ Wheat prices were finally pegged at approximately two and a half times their prewar level.¹⁰ During the early war period the Government encouraged this rise in agricultural prices. Later, however, when the prices of agricultural products doubled their prewar level, a movement was started to place a ceiling on wheat and sugar prices.¹¹

During the early war period, the United States agricultural plant expanded only slightly. Most of the expansion was in staples, especially wheat, thus reversing the previous trend away from staples production.¹² From the very beginning of the war, therefore, there was both an expansion and a readjustment in United States agricultural production which together were to have a great effect upon the agricultural situation in the United States from that date until the present time.

On the entry of the United States into the war in April 1917, the Federal Government immediately took steps to increase agricultural production. Three days after the United States declared war, the Department of Agriculture, representatives of the land-grant colleges, and the state commissioners of agriculture initiated an agricultural war program to increase production. The program went so far as to work out the precise increase of acreage desired, county

⁶ Louis Bernard Schmidt and Carle Dudley Ross (ed.), *Readings in the Economic History of American Agriculture*, New York, 1925, p. 535.

⁷ Benjamin H. Hibbard, *Effects of the Great War Upon Agriculture in the United States and Great Britain*, Carnegie Endowment for International Peace, New York, 1919, p. 160.

⁸ See figure in Appendix.

⁹ Nourse, *op. cit.*, p. 55.

¹⁰ *Loc. cit.*

¹¹ Warren C. Waite and Harry C. Trelogan, *Agricultural Market Prices*, New York, 1951, p. 361.

¹² Archibald M. Mc Isaac, George M. Modin and George F. Luthringer, *Industry Trade and Agriculture*, Boston, 1937, p. 315.

by county. Furthermore, the plans of the program stimulated the county-agent movement which placed an agricultural adviser in each of over 3,000 counties to assist farmers in achieving increased production goals.

The Food Administration was created by an executive order issued August 10, 1917. It stimulated production through its ability to influence prices.¹³ Wheat growers were guaranteed a fixed price, and producers of hogs, sugar, vegetable oils and dairy products were given assurances, through the control of foreign buying and by internal agreement with producers' associations, that the prices of their commodities would be kept at a profitable level. The producers of other agricultural products whose output was considered particularly important were continually reassured and encouraged by Government officials.¹⁴

During the war 40 million acres of grassland in the United States were ploughed up for the first time.¹⁵ Between 1914 and 1918 the total acreage under cultivation increased by about 12 per cent, and total net production expanded by about ten per cent.¹⁶ These general figures do not, however, show the extent of the increased output of agricultural staples. Between 1914 and 1918 tobacco acreage increased by 42 per cent.¹⁷ Areas where the evolution of general farming had advanced to such an extent as to make wheat growing an incidental item in their farm organization reverted to wheat farming.

Even when the cost of farmers' purchases began to catch up with agricultural prices, with a consequent dwindling of farmers' net profits, there was a noticable tendency for production to continue to expand. This tendency can be partially explained by the fact that farmers are notoriously lax in the adjustment of their farming operations in the light of careful analysis of expenses to be incurred during the production period. In addition, even where the prices of farmers' purchases have risen as far as agricultural prices at a given moment, there is a differential advantage to the farmer owing to the fact that there is a longer time lag between the period of outlay and of return in agriculture than in many other lines of production and to the additional fact that the farmer, to a very considerable degree, increases his output by the more intensive use of equipment and labor already available within his own business organization.

¹³ William C. Mullendore, *History of the United States Food Administration 1917-1919*, Stanford University, 1941, p. 10.

¹⁴ Nourse, *op. cit.*, p. 58.

¹⁵ Wallace, *op. cit.*, p. 5.

¹⁶ Mc Isaac, Modlin, and Luthringer, *op. cit.*, p. 316.

¹⁷ Nourse, *op. cit.*, p. 59.

By the end of the war, therefore, the derangement in many segments of the United States farming industry was so severe that, when the time came for readjustment, it could not be promptly achieved. Inferior land had been brought into cultivation. Labor and capital had been withdrawn from other industries. Competition with a number of countries which had only recently become important exporters of staple commodities would continue to intensify.

2. EARLY POSTWAR PERIOD.

a) *Period of Continued High Demand for United States Agricultural Products.*

The United States had entered the war owing other nations \$ 200 million¹⁸ annually on interest account for a debt of three billion dollars.¹⁹ She had paid the interest by exporting cotton, wheat, lard, etc. Between 1914 and 1919 United States' exports exceeded imports by \$ 15 billion.²⁰ Consequently, at the end of the war, other nations owed the United States \$ 500 million annually on interest account.²¹

During the eighteen months immediately after the war many of the wartime conditions continued to operate in the agricultural market, and total United States exports continued to exceed imports, agricultural exports making up a large percentage of the total exports. In the year 1919-1920 United States' exports of agricultural products to Europe equalled \$ 3,849,000,000 and constituted 48.4 per cent of total exports.²²

European demand for United States agricultural products continued after the war for various reasons. Larders were bare, and people were hungry and ill-clothed. The collapse of Russia had removed Europe's largest prewar supplier of cereals. The productive efficiency of the Danube countries had been lowered by the break-up of the large estates and the substitution of peasant cultivation. Considerable agricultural areas of Europe had been devastated. Many skilled agricultural workers had been killed or wounded. To get the men, horses and machinery back on the land and to achieve previous levels of productivity was a slow process. Various European governments

¹⁸ Henry A. Wallace, "American Agriculture and World Markets", *Foreign Affairs*, Vol. 12, No. 2, January 1934, p. 216.

¹⁹ Raymond L. Buell, *The Hull Trade Program and the American System*, Foreign Policy Association and National Peace Conference, New York, 1939, p. 7.

²⁰ *Loc. cit.*

²¹ *Loc. cit.*

²² Wilson Gee, *The Social Economics of Agriculture*, New York, 1942, p. 95.

maintained civil and military payrolls in order to prevent serious unemployment. Government fiscal deficits were met by further borrowing and/or inflation of their respective currencies. The United States loaned its allies a billion dollars during 1919.²³ American exporters exported agricultural products on what were presumed to be short-term commercial credits and financed their needs, pending the receipt of payments from abroad, by borrowing from the commercial banks. As a result of Europe's inability to pay, these loans to United States businessmen had to be renewed continuously.

In addition to government and private buying emanating from European sources, the United States Government and various charitable agencies purchased American agricultural products for various relief undertakings abroad, and American farmers gave trainloads of grain to the stricken areas of Europe.

Without the action of the Food Administration, however, the expanded output of the United States agricultural plant would not have moved into the channels of trade in the period immediately following the war. The expansion of United States agriculture was so great during the war that at its end there was an agricultural surplus of some 18 million tons.²⁴ This was three times the normal surplus. In his introduction to William C. Mullendore's *History of the United States Food Administration*, Herbert Hoover, the Administrator of the Food Administration wrote:

"Given a stoppage in the flow overseas of this great surplus for sixty days, our merchants would have ceased buying from our farmers and a collapse in prices would have resulted..."²⁵

Warren L. Hickman analyzed Mr. Hoover's action as follows:

"Herbert Hoover devised a plan for dumping surplus American products in an attempt to forestall an economic collapse. This plan involved the breaking of the Allied blockade of Germany, and the disposal of American surplus as "relief". This "relief" was charged to the European nations, and actually accounted for almost one-half of the "war debts", but it did manage to remove surplus American pork, wheat and steel from the market in 1919 and early 1920. These emergency measures of Herbert Hoover and Bernard Baruch were extremely short-sighted, and the ultimate collapse of American farm prices in 1921 was more spectacular than the collapse would have been in 1919."²⁶

²³ Nourse, *op. cit.*, p. 64.

²⁴ Mullendore, *op. cit.*, p. 35.

²⁵ *Loc. cit.*

²⁶ *Genesis of the European Recovery Program*, Geneva, 1949, p. 9.

As a result of all these factors, the United States agricultural plant continued to expand after the war. In 1920 the cropped area of the United States exceeded by 45 million acres, or nearly 15 per cent, the 1910 level.²⁷ Prices continued to mount, and exports in several commodities broke wartime records.

b) *Period of Reduced Demand for
United States Agricultural Products.*

The action of the United States Government played a large role in destroying the demand for United States agricultural products. In June 1919 the Federal Government discontinued credits to European nations and took no steps to adjust tariffs to bring them into accord with the country's new creditor position. Consequently, there was a sudden and catastrophic drop in foreign demand for United States agricultural products. This decrease in demand appeared mainly as a reduction in prices while exports remained almost constant. As Henry A. Wallace, United States Secretary of Agriculture from 1933 to 1940, wrote in 1934:

"The failure to adopt any nationally approved plan during the postwar years has, of course, been disastrous in its effect on agriculture. The loss of billions of dollars of agricultural income can be charged directly to this cause. The foreign loans we made to sustain our expanded productive capacity after the war, merely concealed the true nature of our situation. When the loans ended — as they were sure to, since we refused to accept sufficient goods in payment — our artificial market for the surplus disappeared overnight."²⁸

With the cessation of United States Government credits to European nations, the burden of financing European purchases of United States agricultural products fell upon United States exporters and commercial banks. However, by mid-1920, the so-called short-term credits emanating from private sources had reached enormous totals, and Europe showed little signs of being able to repay them.

Increased foreign competition also played a large part in destroying the demand for United States agricultural products. European nations after the war tried to achieve, as far as possible, self-sufficiency in agricultural production. European production of cotton, rye, wheat, corn and hogs increased greatly. Russian agricultural production began to recover, and agricultural production in Argentina,

²⁷ Schmidt and Ross, *op. cit.*, p. 530.

²⁸ *America Must Choose*, p. 8.

Canada and Australia increased. In addition, stores of agricultural products which had accumulated in Argentina, Australia, etc. during the period of transportation shortage began to move again into world markets.

Domestic demand for agricultural products in the United States itself was reduced by the general business crisis of May 1920 and by other causes. Reduced purchasing power, following the general business crisis, resulted in reduced domestic agricultural purchases. The displacement of horses and mules by automotive power during the war and the period immediately following removed the need for the products of 35 million acres.²⁹ Furthermore, a decline in per capita demand, which had been going on for several years, was intensified. Shorter working hours, greater average longevity, increased transportation facilities, mechanization in industry and agriculture, and better housing and heating all tended to reduce per capita food requirements for energy and heat.

Factors other than reduced demand hurt the United States farmer during this period. Credit contraction of the banking system and increases in freight rates and taxes hurt United States agriculture. In the latter part of 1919 and 1920, the United States Government released stocks of agricultural products that had been stored for military needs in case the war had lasted beyond 1918.

Starting in late 1919, trade forces did not move export agricultural products promptly into consumption. Between the middle of 1920 and the middle of 1921 United States agricultural prices as a group, and principally those of export crops, suffered a precipitous fall.³⁰ The prices of farmers' purchases, however, did not fall to such an extent, and farmers were caught in a "cost-price squeeze". Consequently, farm values decreased, while mortgage indebtedness increased.

Agricultural production continued to increase, however, and in 1921, output led all countries. Many producers of export commodities, especially wheat producers in large segments of the United States, had few alternative crops to which they could turn. Consequently, there were only minor shifts within the industry itself.

²⁹ Gee, *op. cit.*, p. 89.

³⁰ See figure in Appendix.

C. REMEDIAL ACTION

During the 1920's several attempts were made to improve agriculture's position. The farmers themselves formed cooperatives and exerted political pressure which forced the Federal Government to take action to improve agriculture's position and to consider three plans to solve the surplus production problem.

1. GOVERNMENT AID TO AGRICULTURE.

Obviously, by the middle of 1921, United States agriculture was in severe trouble and by 1922 the general level of commodity prices had dropped to one half the war peak. Many agricultural interests now demanded some kind of governmental action, and such action was immediately forthcoming.

a) *Department of Agriculture.*

Many farmers in the United States now looked with approval upon the doctrine of assisted adjustment or, as Professor John D. Black termed it, "*Assisted Laissez Faire*".³¹ The essence of this doctrine is that the individual farmer is in charge of too small a unit to be able to work out by himself the problems that confront him and to adjust to changing economic conditions without assistance of various kinds from public agencies. The date for the inception of a real policy of assistance to farmers in their economic adjustment was the creation of the Bureau of Agricultural Economics within the Department of Agriculture in 1921. Prior to this date, the Department of Agriculture had limited itself to improving methods of production on the farm.

To aid them in making production plans, farmers were, for the first time, presented with economic facts and interpretations in language they could understand. The individual farmer remained free, however, to make such adjustments as he thought best. To provide this information the Department of Agriculture improved its statistical methods in order to obtain more reliable indicators of the supply and demand developments to be expected. It instituted a series of "intentions to plant" and foreign competition and market reports, historical price series, and studies of fluctuations in domestic demand. The data obtained were analysed to provide a basis for

³¹ For a complete coverage of the doctrine, see Black's *Agricultural Reform in the United States*, New York, 1929, pp. 321-336.

appraising the anticipated results of supply and demand positions for the various individual agricultural products. Price behavior was then analyzed in order to determine the quantitative significance of the several factors of supply and demand, and, finally, methods were developed for determining the most likely course of prices.

"Assisted *Laissez Faire*" did not improve agriculture's position to any great extent. To quote from a study by the Department of Agriculture entitled *Economic Bases for the Agricultural Adjustment Act*:

"Although the outlook report proved quite dependable in forecasting changes in prices over the next season or two and, therefore were highly useful as a basis for the individual farmer's adjustments, farmers as a whole were but little influenced by them in making their production plan. This outlook method failed to remove the conflict between the individual interest and the group interest ... the individual farmer sees his interest only in producing a larger volume, especially if there is reason to believe that other producers are undertaking to bring about a reduction in supplies and higher prices. Since the outlook method provided no means for action on a commodity-wide basis, it had little effect in bringing about adjustments in the national supply of those commodities that have suffered in the past decade from changes in foreign and domestic demand." ³²

In 1931, because of the alleged bearish effects, the Department of Agriculture was prohibited from making further price forecasts.

In January 1922, President Harding, at the suggestion of Henry C. Wallace, ³³ his Secretary of Agriculture, called a National Agricultural Conference composed of farm leaders, farmers, and business men engaged in agricultural enterprises. Out of the Conference came 37 recommendations for legislative action. The Legislative Branch of the Federal Government now began to act along the general lines suggested by this Conference.

b) Congress.

The first congressional action to meet the farm problem was the setting up of the Joint Commission of Agricultural Inquiry in June 1921, which reported its findings and recommendations in October of the same year. Its recommendations were somewhat similar to those of the National Agricultural Conference.

³² Ezekiel and Bean, *op. cit.*, pp. 49-50.

³³ His son, Henry A. Wallace, was to be President Roosevelt's Secretary of Agriculture.

Legislative action to aid the farmers was soon recorded on the statute book. In 1921, the War Finance Corporation was revived to assist in financing the exportation of agricultural products. Until the termination of its activities, in 1924, it had loaned a large amount of money on agricultural commodities and to bankers in agricultural districts. The national agricultural credit system was enlarged to provide the farmer with cheaper credit to meet his production and marketing needs. Marketing regulations were enforced for grain and livestock.

In general, these measures appear to have possibly helped agriculture's position somewhat in as much as farm prices came into closer alignment with other commodity prices during the period 1925 to 1929. However, the farm problem was far from solved. The major export crop producers could not sell all their production abroad at remunerative prices in competition with the new agrarian export nations.³⁴

During the middle 1920's very little new government action was taken to aid agriculture. Congress tried to take action that it believed would aid agriculture, but President Coolidge was sufficiently satisfied with the state of affairs in the United States economy, including agriculture, to follow the policy of doing just as little as possible.

2. POLITICAL PRESSURE.

When conditions in the agricultural segment of the economy worsened, farmers felt themselves to be increasingly at the mercy of a market which they did not control and to which they did not "belong". In addition there was, and continues to be today, a certain stigma attached to farmers by virtue of their being rural. The farm organization movement was, and is, therefore, in its economic aspect a "revolt against the market" and in its social aspect a movement for equality of status on the part of a lower status group.

In the farm organization movement the driving force has been a sense of unfairness in the prices the farmer receives. Thus, the prime aim of the agricultural pressure groups has been "parity" — a "just" price for the farmer's products and thus a "just" income for the farmer.

One's own pressure group is regarded as a "counterpressure", that is something to balance the already existing pressures in other groups in order to keep the general interest in its proper center. In

³⁴ For a discussion of the various plans that were devised to meet this problem see below, pp. 50-54.

the case of farmers, there is the feeling that other groups in society have certain natural or artificial advantages, and they, therefore, must strive for special privileges in order to gain "equality".³⁵

a) *Formal "Farm Bloc"*.

The first pressure group to be openly recognized in the United States Congress was an agricultural group which was later named the "Farm Bloc" by popular writers. It developed out of a meeting called by Senator W. S. Kenyon of Iowa in May 1921, held at the Washington D.C. office of the American Farm Bureau Federation, at which twelve senators from predominantly agricultural states, representatives of government agencies, and farmers met to decide on a program for immediate congressional attention. The senators were evenly divided between the two major political parties. The senators' group was later enlarged to include twenty-two senators, and meetings were held periodically in Senator Kenyon's office. A similar movement developed in the House of Representatives, but it was never as thoroughly established.

The "Farm Bloc" voted together on matters affecting agriculture and was an effective body during the early 1920's since it held the balance of power in Congress and could, therefore, make excellent use of the ancient practice of "logrolling".³⁶ The "Farm Bloc" showed the first signs of disintegration in 1921 when a group wanting highly protective tariffs on wool, sugar, wheat and various California products split off to form the "western tariff bloc". The death blow to the formal "Farm Bloc" was President Coolidge's premeditated appointment of Senator Kenyon to a federal judgeship in 1923.³⁷

b) *Informal "Farm Bloc"*.

Since 1923, a loose-knit, non-partisan group of senators and members of the House of Representatives has remained vigilant in its guardianship of agriculture, and the press has continued to talk about a "Farm Bloc" whenever senators and members of the House of Representatives from predominantly agricultural areas have voted more or less together as they usually do on matters affecting agriculture.

³⁵ Kenneth E. Boulding, *The Organizational Revolution*, New York, 1953, p. 125.

³⁶ "Logrolling" is a term used to describe congressional voting in cases where members of the House of Representatives and/or senators support their colleagues on bills which are not of immediate interest to their constituents in return for their colleagues' support on bills that are of special interest to their constituents.

³⁷ John D. Black, *Parity, Parity, Parity*, Cambridge, Mass., 1929, p. 12.

The political voice of the rural areas of the United States is peculiarly influential in Congress for several reasons. Each state has two senators, which gives a disproportionate voting power in the Senate to the predominantly agricultural and less-populated states. Congressional districts are so drawn as to give extra weight to the rural areas and thus a disproportionate voting power in the House of Representatives to the predominantly agricultural areas. The continuous movement of population from farms to cities also tends to increase the disproportionate representation of rural areas in both houses of Congress. The bipartisan make-up and the long tenure of certain of its members gives the "Farm Bloc" a strategic position in Congress, both on the floor and in important committees. Perhaps the most powerful leverage given the "Farm Bloc" is agrarian "fundamentalism" described by Bernard Baruch in 1921:

"Agriculture is the greatest and fundamentally the most important of our American industries. The cities are but the branches of the tree of national life, the roots of which go deeply into the land. We all flourish or decline with the farmer."³⁸

In 1940, Senator Adams, after the defeat of his attempt in the Senate to reduce agricultural surplus-purchase appropriations, remarked that the:

"...country ought to be very grateful it was only \$ 100,000,000, because they could have gotten \$ 200,000,000 or \$ 300,000,000 just as well.

All they would have to do is say it was for the farmers..."³⁹

Because the informal "Farm Bloc" holds the position that it does in Congress, farmers want farm policy to be worked out by the Congress rather than by the Executive Branch of the Federal Government.

c) *Farm Lobby.*

In the 1920's, as a result of agricultural discontent, farm organizations gained new impetus. Since the turn of the century there had been little activity on the part of farmers as an organized group. The collapse of the Populist movement in 1896 had destroyed many farm organizations. In the period up until the 1920's agricultural prosperity destroyed their *raison d'être*. Only the National Grange

³⁸ "Some Aspects of the Farmers' Problems", *Atlantic Monthly*, Vol. CXXVIII, No. 1, July 1921, p. 112.

³⁹ *The New York Times*, June 15, 1940, p. 11.

had continued to have a following of any importance. In the 1920's, however, the Grange and the National Farmers' Union gained new membership and enthusiasm, and the American Farm Bureau Federation and the National Council of Farmers' Cooperative Marketing Associations came into existence. In addition to these general farm organizations, established specific commodity organizations strengthened their following and new commodity organizations came on the scene. All of these leading farm groups maintained representatives in Washington D.C. To quote from Carl T. Schmidt's book entitled *American Farmers in the World Crises*:

"From their headquarters in Washington the leading farm organizations establish contacts with congressmen and administrative officials. They lobby vigorously for laws favorable to their members and keep watch over all government activities that touch farmers... By appearances before Congressional committees, by personal appeals to legislators and administrators, by pressure exerted through a deluge of telegrams and letters that demand passage of particular bills, by any and all other means that resourceful minds can discover, the fight is carried on."⁴⁰

In general, the specific commodity groups have been more effective than the general farm organizations in their lobbying activities since they have a community of interest which often the general farm organizations do not have.⁴¹ At the start of the 1920's the farm organizations did not demand government action beyond the lowering of freight rates and the providing of more dependable credit. The Farmers' Union maintained this "self-help" tradition until about World War II, but the other farm groups were soon demanding more and more federal aid.

3. COOPERATIVE MOVEMENT.

Concurrently with the demand of many farmers for governmental aid there was a general feeling developing in agricultural circles that farmers themselves could act to improve their position.

a) *Underlying Theory.*

Until the early 1920's farm organizations generally stood firmly for the maintenance of competition, not only in agriculture but in the economy as a whole. During the last decades of the nineteenth century they sought to bring the so-called "national" monopolies under governmental regulation, and they strongly supported the

⁴⁰ New York, 1941, p. 106.

⁴¹ See below, pp. 43-44.

anti-trust movement which first took form in the Sherman Act and later in the Clayton act.

The forces making for large-scale organization in non-farm industries were, however, strong enough to override the vague and somewhat unrealistic legal barriers set up to foster and maintain competition. The gains from large-scale organization efficiency and control of price structures were significant enough and the loopholes in the anti-trust laws were numerous enough to bring the over-all trend in economic structure towards larger business units and to minimize competition. Labor likewise was beginning to work toward the protection of workers from the full impact of unregulated competition for jobs.

The farmer thus found himself in an unwelcome position. While he continued to operate on a small-unit basis with no significant control over amounts produced and marketed or prices received, an increasing segment of the economy was coming under more centralized control of one type or another, thus facilitating control over production, marketing, prices and wages. In periods of reduced demand, the segments of the economy that were under more centralized control kept prices and wages more or less stable and adjusted to demand changes by regulating the amounts produced or offered. There were, of course, limits as to how far this control could be carried, and there were differences in degree in different industries and labor groups, but the trend was in this direction. During the early 1920's the disparity between the prices of the commodities which a farmer sells and those he buys became appreciable. During and after the general business crises of May 1920, the prices of non-farm products fell but not nearly as far as the prices of farm products. The index of farm prices fell to about 124 while non-farm prices fell only to about 160.⁴² The drop in some farm prices was very severe. For example, food grains fell to 112 and feed grains to 92.⁴³

Farmers now began to feel that the solution to their problems lay not in trying to make sure that the anti-trust laws were enforced but in following industry's example and reducing competition among themselves. Farmers generally now did not feel that managerial freedom and "Assisted *Laissez Faire*" were sufficient tools with which to improve their economic position. By unified action they hoped to be able to gain control over the amount of farm products offered for sale and thereby gain control over prices. They also

⁴² See figure in Appendix.

⁴³ Murray R. Benedict, "Attempts to Restrict Competition in Agriculture: The Government Programs", *The American Economic Review*, Vol. XLIV, No. 2, May 1954, p. 95.

hoped, by cooperative action, to be able to obtain the things farmers buy at sufficiently lower prices and thereby materially improve their real income position. However, the most important thing was to increase the prices of their sales in order to have dollar earnings large enough to repay their tremendous indebtedness which by 1920 stood at approximately \$ 12 billion or three times what it had been in 1910.⁴⁴

If farmers could not create competitive conditions in non-farm industries they would at least put themselves on equal ground. Governor F.O. Lowden, an advocate of the cooperative movement, spoke for much of the agricultural population when, in an address before the National Cooperative Marketing Conference in Washington D.C. in January 1925, he said:

"Now, people talk about the law of supply and demand fixing the price; therefore the farmer is foolish when he assumes to do it. They ignore the practice that obtains everywhere else. In other industries they even in many cases insist upon controlling the retail price even after the commodity has left their hands and gone into the hands of the retail merchant, in the interest of stability of their industry. . . . Under present agricultural conditions, the farmer does not dare even to frame a price in his own mind until he has consulted the local dealer in the town."⁴⁵

Similarly, W. H. Settle, a member of the Organization Committee of the Indiana Wheat Pool, brought out the then popular belief, in a pamphlet entitled *Merchandise Your Wheat*, that:

"Everybody sets a price on what he sells except the farmer. Why shouldn't we have a voice in naming the price on the products we sell? Let's get control of the flow of the wheat crop through our own association and be able to merchandise it in a way that will let us have a voice in making prices. . . . What we have got to do is to handle our crop so that it is worth more in comparison with what we have to buy. We want to increase the price level of wheat in comparison with the manufactured goods and living expenses."⁴⁶

b) Preliminary Action.

The first effort to encourage the movement towards agricultural cooperation was in 1890 when an attempt was made to introduce a clause into the Sherman Antitrust Act which would have exempted from the Act's provisions agreements or combinations among farmers

⁴⁴ Chester C. Davis, "Agriculture and the Tariff", *Proceedings of the Academy of Political Science*, Vol. XII, No. 2, 1927, p. 15.

⁴⁵ As quoted by W.B. Bizzell in *The Green Rising*, New York, 1926, p. 215.

⁴⁶ As quoted by Bizzell, *op. cit.*, pp. 211-212.

for the purpose of enhancing the prices of farm products. The second effort to encourage the movement toward agricultural cooperation was the inclusion of a clause in the Clayton Antitrust Act of 1914 which stated that associations of agricultural producers without capital stock and not conducted for profit could not *ipso facto* be declared combinations in restraint of trade. The third, and most important, effort to encourage the movement toward agricultural cooperation was the Copper-Volstead Act of 1922. It specifically authorized the organization of farmer cooperatives provided they were for mutual benefit. Such cooperatives were not exempt from the anti-trust laws, but prosecution of them was conditional upon a finding by the Secretary of Agriculture that they unduly enhanced prices through the restraint of interstate commerce.

c) *The Movement.*

The first attempt to improve agriculture's position through cooperative action was the formation of local cooperatives during the early 1920's. These cooperatives attempted to gain control of a specific commodity or group of closely related commodities within important localized producing regions. They interpreted general demand situations to the producers and therein attempted to adjust local supply conditions to harmonize with the general demand picture. Thus, they sought only to perfect the apparatus of the autonomous commercial market as the mechanism for distributing the income stream and guiding the productive process. They did not attempt to supplant the mechanism.

The second attempt to improve agriculture's position through cooperative action was the formation of national federated cooperative associations which undertook to perform not merely the current adjustment of local supplies to general demand but attempted to adjust general supplies marketed between producing years. Thus, the term "orderly marketing" was given a much broader meaning than it had under the local cooperative. The movement marked the beginning of the concept of maintenance of farm prices above free-market levels. All local cooperatives handling the same commodity, or group of closely related commodities, were to sign contracts with a national cooperative for exclusive distributive services. The federated cooperatives sought to regulate the flow on to the market and to specify retail selling prices of the commodities that they controlled. They rarely attempted to exercise quantitative control over supply except through qualitative regulations.⁴⁷

⁴⁷ Grade or delivery-time regulations limited total market supply in particular segments of the market.

The originator and leader of the national federated cooperative movement was Aaron Sapiro, a dynamic young attorney. The movement gained the vigorous backing of the American Farm Bureau Federation and rapidly gained great popularity and swept over the United States with the blessings of the United States Department of Agriculture.⁴⁸ Cooperatives were formed for grain, livestock, tobacco, cotton and many other commodities. Most of the states passed legislation authorizing such cooperatives and their subsidiary corporations for financing, processing, storing and selling.

By 1924, the movement had virtually died.⁴⁹ The creation of large-scale cooperatives proved too big a task for farmers to carry out unaided. However, a seed had been sown that was to affect both attitudes and actions in the period of the Agricultural Marketing Act and, to a limited extent, until the present time. The seed was to be nurtured during the interim period by administrative backing. President Coolidge, in his opening messages to Congress and in his vetoes of the McNary-Haugen bills, stated that the principal hope of agriculture lay in cooperative marketing.⁵⁰ W. A. Jardin, his Secretary of Agriculture, supported the movement from 1924 to 1928. Mr. Hoover supported it during his presidential campaign of 1928.⁵¹

d) *Results Achieved.*

The cooperative movement has not improved agriculture's position to any great extent. Cooperatives have frequently placed undue emphasis on price control. They have not realized that local cooperatives, or those controlling only a portion of total output, can have only minor influence on prices which are dominated by national or international supply and demand conditions.

Cooperative marketing has been effective in improving agriculture's position in a few special cases only. In isolated cases of specialized and localized production⁵² cooperatives have been effective in adjusting production and shipment to the needs of the market and thus increasing the returns to the farmers. However, even in these special cases, the control over products entering the market has been limited

⁴⁸ Bizzell, *op. cit.*, p. 203.

⁴⁹ Benedict, *loc. cit.*

⁵⁰ Cassins M. Clay, *The Mainstay of American Individualism*, New York, 1934, p. 102.

⁵¹ John D. Black, "Doctrines Relating to Agricultural Policy for the United States", *Proceedings of the International Conference of Agricultural Economists*, 1930, p. 227.

⁵² For example: walnuts, California citrus fruits, and cranberries.

in effectiveness by increased competition from other areas.⁵³ In the case of major crops, cooperatives have been unable to coordinate production and consumption since they have been unable to secure and maintain the support of a sufficient percentage of producers. Here again, individual interest overshadows group interest, and farmers generally prove unwilling to merge their individual advantage in the general welfare. Financial necessity compels many individual farmers to seek individual profit at the expense of the majority.

4. TARIFF ACTION.

A special "aid" to agriculture that was not discussed under the section entitled *Government Aid to Agriculture* is tariff protection on agricultural products. It was not discussed under this section because tariffs are effective in protecting only a very small segment of agriculture in the United States.⁵⁴

a) *Emergency Tariff and Fordney-McCumber Tariff.*

The farm depression of the early 1920's made farmers sensitive to the tariff question. However, farmers' opinions in regard to tariff protection were varied and tended to be sectional.⁵⁵ Therefore, the general farm organizations could not possibly unite behind any one stand on the tariff question. Professor T. A. Atkeson, Washington D. C. representative of the Grange, in hearings before the Senate Committee on Finance on the Tariff Act of 1921 said:

"We found that we had a good many men in our membership who were high protectionists, men who were free traders, men who favored a tariff for revenue only with incidental protection, and men who favored tariff for protection with incidental revenue.

We found that with this various membership in our organization it was impossible for us to determine or for us to take the position for or against protection... we have not tried to settle the tariff policy of the country."⁵⁶

However, the special commodity organizations could unite their

⁵³ For example, California citrus fruits have had to bear competition from increased production of the same Florida citrus fruits and also increased production of competing fruit crops of other areas.

⁵⁴ See below, p. 44.

⁵⁵ Murray R. Benedict, *Fram Policies of the United States 1790-1950*, New York, 1953, p. 512.

⁵⁶ Hearings before the Committee on Finance, Senate, 67th Congress, Second Session, H.R. 7456, pp. 2555-2556.

membership, and a few of them⁵⁷ exerted persistent and effective pressure for increased tariffs.⁵⁸

Professor Atkeson went on to say:

"But some 30 or 40 years ago our organization adopted a resolution reading about like this: That so long as protection is the policy of the Government, we demand for agricultural products a fair and equal protection under the tariff laws of the country.

In one form of words or another, for 30 or 40 years we have reiterated that position, and that is what I am here to reiterate today."⁵⁹

Farmers were accepting high tariffs on manufactured products as a *fait accompli* and only asked that agriculture be placed on an equal basis with industry with respect to tariffs. They were indirectly giving support to tariffs which appreciably increased the cost of things they purchased and thereby reduced their real income. Farmers gave this support because they had been taught to believe that high tariffs on manufactured goods permit high wages to be paid, which in turn assures the farmer a larger domestic market and higher prices for his products.⁶⁰ Furthermore, countries which lost dollar earnings in the United States because of the tariffs would not be able to buy United States agricultural export crops. All that the farmers demanded for themselves were increased agricultural tariffs which help only a small segment of agriculture since most of United States agriculture is on an export basis. For commodities in which the United States is self-sufficient or on an export basis, the tariff and import quotas are not very effective in supporting domestic prices since imports represent only a small percentage of domestic consumption. Sugar, wool, butter, flaxseed and several fruits are the major non-export agricultural products which have been protected by import restrictions.

⁵⁷ Particularly wool, sugar, dairy products and vegetable oils.

⁵⁸ Today the farm public in general is inert and inarticulate and the general farm organizations are still handicapped in expressing their views on tariffs by their very size and internal diversity. In recent years the Farm Bureau and the Farmers Union have supported with few reservations the Reciprocal Trade Agreements Program and the GATT while the Grange has leaned toward tariff protection. Within each organization, however, there are internal differences of opinion usually along commodity lines. On the other hand, virtually all of the tightly organized, aggressive commodity groups, excepting producers of export commodities such as dried fruits, oppose tariff reductions and act with energy and effectiveness.

⁵⁹ Hearings before the Committee on Finance, Senate, 67th Congress, Second Session, H.R. 7456, p. 2556.

⁶⁰ J.R. Howard, "The American Farmer and European Affairs", *Reconstruction in Europe*, Manchester Guardian, Manchester, 1922, p. 613.

Obviously, farmers had not thought through the relation of tariffs to agriculture. They put more faith in a protected domestic market than in competition with other nations in the world market. They did not realize that, as Lynn R. Edminster wrote in 1938:

“... agriculture would still be on a surplus basis even if every dollar's worth of agricultural products which we normally import (other than products, such as rubber, coffee, etcetera that are not grown in the United States) were excluded and we produced domestically whatever quantities of such products, or of substitutes for them, consumers in this country were able to take off the market at the higher prices that would have to be paid for them.

Under the foregoing conditions it is idle to talk of assisting agriculture through a policy of high tariffs.”⁶¹

As Professor Jacob Viner pointed out in 1925:

“The sound position for the farmer to take is to disavow protection for his own products and to maintain vigorous opposition to protection for any other products. If such procedure should result simply in a withholding of protection from agriculture and its continuance for manufacturers, time will moderate if not wholly remove the unjust burden... The protected manufacturer may, perhaps, have no standing in court. But the rest of the community is entitled to demand that the farmer should seek in other and more equitable directions the remedies for his economic ills.”⁶²

Congress, however, decided that increased tariffs on agricultural products would aid agriculture and in 1921 passed the Emergency Tariff, frequently called the “Agricultural” Tariff since it dealt principally with agricultural products. President Wilson wisely vetoed it, but President Harding signed it soon after taking office. It provided for sharp increases in the duties on meat, wheat, corn, wool and sugar and placed a duty on long-staple cotton. All except sugar and wool are export crops.

Not content with this action, Congress further increased tariffs in the Fordney-McCumber Act passed in 1922. The Act increased rates on agricultural products previously covered by tariffs and extended the list of dutiable agricultural products.

The effect of these Acts was to reduce exports of United States agricultural products and to help agriculture generally not at all.⁶³

⁶¹ “Trade Agreements and Agriculture”, *Journal of Farm Economics*, Vol. XX, No. 1, February 1938, p. 326.

⁶² *Journal of Farm Economics*, Vol. VII, 1925, p. 123 as quoted by Gee, *op. cit.*, p. 565.

⁶³ For a discussion of the difficulty of estimating the effect of import duties upon exports see below, p. 48.

Agricultural exports dropped from 19 per cent of total agricultural income in 1919 to 12 per cent in 1928.⁶⁴ Total United States exports continued to exceed imports notwithstanding the fact that the United States was the world's largest creditor nation. The resulting pressure on foreign countries served to intensify the growth of foreign trade barriers in other countries. Thus, agricultural output was encouraged abroad and economic self-sufficiency began to run rampant.

b) *Hawley-Smoot Tariff.*

In 1927 the Business Men's Commission on Agriculture, established jointly by the National Industrial Conference Board and the United States Chamber of Commerce, published its findings on the agricultural problem in a book entitled *Conditions of Agriculture in the United States and Measures for its Improvement*. It recommended, among other things, tariff revision downward. Also, a commission of the League of Nations determined that the United States tariff was the second highest in the world.⁶⁵ However, the Republican Party, during the campaign of 1928, pledged increased tariff "protection" to agriculture. Farmers generally still believed that the country was firmly committed to tariff protection on non-farm products and continued to accept such tariffs as a *fait accompli*.

When Mr. Hoover became President, it was obvious that the Executive Branch of the Federal Government would do its best to convince the legislature to increase tariffs. A. M. Hyde, President Hoover's Secretary of Agriculture, was well chosen to lead the drive for increased tariffs. He believed that agricultural tariffs were a required part of a sound national agricultural policy. He felt that United States agriculture was slowly advancing toward being on a domestic basis and that, therefore, it would profit increasingly from high tariffs.⁶⁶

Soon after he took office, President Hoover convened a special session of Congress for the purpose of passing a limited tariff act for agricultural commodities in particular.⁶⁷ The special session accomplished nothing. However, in the regular session, Congress again took up the tariff question. During the congressional hearings agricultural representatives indicated that tariffs on agricultural products were inadequate. They asked for an export subsidy program

⁶⁴ Elna Anderson, "What Proportion of Farm Output Goes Abroad?", *The Agricultural Situation*, U.S. Department of Agriculture, Washington D.C., September 1937, p. 23.

⁶⁵ Clay, *op. cit.*, p. 156.

⁶⁶ U.S. Department of Agriculture, *Report of the Secretary of Agriculture 1929*, Washington D.C., 1929, pp. 30-31.

⁶⁷ Benedict, *Farm Policies of the United States 1790-1950*, pp. 250-251.

but finally settled for increased tariffs.⁶⁸ Agricultural interests also agitated for parity of protection for agriculture and industry. Furthermore, they seemed to have had in mind parity of protection between agricultural commodities in spite of the profession that the rates in their petitions had been calculated to equalize costs of production.⁶⁹ "Logrolling" between the various special interest groups within and outside agriculture soon made the tariff a general tariff revision. The final effect was far from favorable for agriculture. As Henry A. Wallace said in 1935:

"The bill actually proved to be the most outrageous instance of selling agriculture down the river to the traditional beneficiaries of tariff privilege. Once again, as in 1922, agriculture has been traded out of its shirt in a game of logrolling... Monopolists and others already well fortified by tariff advantages established themselves even more impregably within the citadel of protection."⁷⁰

Henry A. Wallace wrote, after having seen the House draft of the bill:

"I have not seen the Hawley-Smoot Tariff as revised by the Senate Committee, but I hope it is as bad as the House draft with its average tariff on manufactured products of over 45 %. A tariff of this sort is bound to provoke a revulsion and the worse the tariff the more violent the revulsion."⁷¹

Over 1,000 economists recommended that President Hoover should not sign the tariff bill,⁷² and 33 foreign nations formally protested against the increased tariffs.⁷³ Ignoring all this, President Hoover unwisely signed the bill, and the Hawley-Smoot Tariff became law in June 1930.

The Hawley-Smoot Tariff erected the highest tariff wall in the United States' history. It increased the duty rates on agricultural commodities by 30 per cent and those on industrial products by 12 per cent.⁷⁴ Specifically, it raised the rates on livestock products, corn, rice, oats, buckwheat, sugar, wrapper tobacco, flaxseed and linseed oil, soybeans and soybean oil, butter, lard, clothing and combing wool, hemp, flax, long-staple cotton and many fruits, vegetables and

⁶⁸ Buell, *op. cit.*, p. 11.

⁶⁹ E.E. Schattschneider, *Politics, Pressures and the Tariff*, New York, 1935, pp. 93-94.

⁷⁰ As quoted by Gee, *op. cit.*, p. 568.

⁷¹ "Relation of the Tariff to Farm Relief in the United States", *Proceedings of the International Conference of Agricultural Economists*, 1929, p. 179.

⁷² Buell, *op. cit.*, p. 12.

⁷³ Benjamin H. Hibbard, *Agricultural Economies*, New York, 1948, p. 283.

⁷⁴ Asher Isaacs, *International Trade Tariff and Commercial Policies*, Chicago, 1948, p. 244.

nuts. Duties were placed on edible palmkernel and sesame oils, hides and skins.

Section 306 (a) of the Act forced customs officials to apply embargoes on fresh, chilled and frozen meat and livestock from any country in which contagious livestock diseases exist on a country-wide basis. In the case of Argentina, the region of Patagonia is disease-free. Obviously the exclusion of all Argentine meat was more than a disease-prevention measure.⁷⁵

The administration of the Act was such as to discourage imports. Customs "red tape" frequently delayed entry until agricultural products spoiled. As Mr. B. A. Levett, a customs lawyer, shrewdly wrote:

"Let me write the Administrative Act and I care not who fixed the rates of duty."⁷⁶

Any specific quantitative estimate of the effect of import duties upon imports is exceedingly difficult to make. The factors that determine the amount and character of imports at any one period are so diverse and complicated that it is almost impossible to isolate any one of them and measure its importance. In any case, the reduced agricultural imports were poor satisfaction to United States farmers who were now faced with a disastrous shrinkage in farm exports, prices and incomes.

Similarly, it is exceedingly difficult to make any specific quantitative estimate of the effect of tariffs upon exports. However, some statistics may be revealing. In 1931 exports accounted for only seven per cent of gross farm income, whereas in 1910 they had accounted for 13.4 per cent.⁷⁷ In 1932 United States wheat exports to Europe amounted to 20 million bushels as compared with 160 million bushels in 1921.⁷⁸ The Department of Agriculture estimated that reduced agricultural exports contributed roughly one-third of the decline in gross farm income following the 1929 business crash.⁷⁹

In 1931 John Maynard Keynes wrote:

"Their (United States and France) loss of export trade will be an inevitable, a predictable, outcome of their own action. These countries, largely for reasons resulting from the war and the war

⁷⁵ Similarly, Spanish grapes have been embargoed, and recently it was proposed to limit the importation of Dutch nursery stock to "amounts needed for propagation."

⁷⁶ *Through the Customs Maze*, p. 11 as quoted by Percy W. Bidwell in *The Invisible Tariff*, New York, 1939, p. 2.

⁷⁷ Donald C. Blaisdell, *Government and Agriculture*, New York, 1940, p. 16.

⁷⁸ Ezekiel and Bean, *op. cit.*, p. 34.

⁷⁹ Blaisdell, *loc. cit.*

settlements, are owed much money by the rest of the world. They erect tariff barriers which prevent the payment of these sums in goods. They are unwilling to lend it. They have already taken nearly all of the available surplus gold in the whole world. There remained, in logic, only one way by which the rest of the world could maintain its solvency and self-respect; namely to cease purchasing these countries' imports." ⁸⁰

Consequently, as John Maynard Keynes pointed out, economic nationalism in other countries was given further impetus, and agricultural production was encouraged in countries which had previously depended upon imports from the United States.

In 1933 the League of Nations reported:

"The Hawley-Smoot tariff in the United States was the signal for an outburst of tariff-making activity in other countries, partly at least by way of reprisals. Extensive increases in duties were made almost immediately by Canada, Cuba, Mexico, France, Italy, Spain. During 1931, general tariff increases were announced by India, Peru, Argentine, Brazil, China, Italy, Lithuania."⁸¹

The greatest single blow to United States agriculture was the Ottawa Trade Agreements of 1932 in which the British Dominions were given preferential status in the world's largest market for agricultural commodities — the United Kingdom.

Not satisfied with the Hawley-Smoot Act, Representative Burtress of North Dakota introduced a bill in 1931 entitled "A Bill to Place an Embargo on Certain Agricultural Products". The bill would have placed a temporary embargo, from the day following the enactment of the bill until March 1, 1932, upon a long list of agricultural products. ⁸²

The 1932 Republican platform promised no new tariff action, and President Hoover continued to talk about tariff "protection" for the farmer. On the other hand, the Democratic platform denounced the Hawley-Smoot Tariff as follows:

"We condemn the Hawley-Smoot tariff law, the prohibitive rates of which have resulted in retaliatory action by more than 40 countries, created international economic hostility, destroyed international trade, driven our factories into foreign countries, robbed the American farmer of his foreign markets, and increased the cost of production." ⁸³

⁸⁰ *Essays in Persuasion*, London, 1931, pp. 292-293.

⁸¹ *World Economic Survey 1932-33*, Geneva, 1933, p. 193.

⁸² Roughly classified they were as follows: 1. Wheat and wheat flour.

2. Grain feeds. 3. Butter and butter substitutes. 4. Dried edible beans.

5. Eggs.

⁸³ Hibbard, *op. cit.*, p. 287.

The platform advocated a competitive tariff for revenue and reciprocal trade agreements.

5. THREE PLANS.

At the same time that farmers were demanding governmental aid, cooperative action and tariff protection, a conviction grew that the root of the farm problem was the existence of an export surplus, in the sense of a supply exceeding domestic requirements which could not be sold abroad except at unremunerative prices. The difficult solution was the reduction of production. An easy solution was first searched for. The first two plans and the early versions of the third plan that will be discussed were devised to increase agricultural prices and incomes without forcing contraction of production by insulating the United States domestic market from the depressed world market. The final version of the last plan was not devised to insulate the domestic market. Rather, it was a first attempt at the difficult solution, that is reduced production. The price objective of each plan was a "fair exchange value" for agricultural products, and the income objective was a "fair share of the national income". The three plans were the so-called equalization-fee, export-debenture and domestic-allotment plans.

a) *Equalization-Fee Plan.*

The equalization-fee plan was first described in a pamphlet entitled "Equality for Agriculture" published anonymously in 1922. The authors were George N. Peek and Hugh S. Johnson who were later to head the AAA and the NRA respectively in the early New Deal days. Mr. Peek assumed the active leadership of the equalization-fee movement and presented his ideas at the National Agricultural Conference called by President Harding in 1922. The Administration was not receptive.⁸⁴ However, Mr. Peek was more successful with the legislature and soon gained congressional support. The first bill to include the principles of the plan was the McNary-Haugen Bill introduced in Congress in 1924.

The objectives of the plan were summarized by Mr. Peek and Mr. Johnson as follows:

"The doctrine of protection must be revised to insure agriculture equality of tariff protection and a fair exchange value with other commodities, on the domestic market, or the protective principle must perish.

⁸⁴ Henry A. Wallace, "Relation of the Tariff to Farm Relief in the United States", *Proceedings of the International Conference of Agricultural Economists*, 1929, p. 177.

It can be so revised only by some plan, in respect to surplus crops, to equalize supply with demand on the domestic market, at not to exceed fair exchange value with other commodities, to protect that value by a tariff, and to divert surplus to export and sell it at world price.”⁸⁵

The plan sought specifically to raise and maintain the domestic prices of agricultural export commodities at the prewar (1909-14) parity with non-farm goods by maintaining domestic prices above world prices through the use of the tariff wall and export dumping. Government-sponsored corporations were to be set up to remove the export surpluses and dump them abroad. The loss from foreign dumping was to be recouped by an equalization fee assessed on the farmer's sales. All farmers were to be paid for their commodities, whether for domestic consumption or for export, partially in script, the value of which would be determined later when operating costs and losses had been determined. In this way, the tariff was to be made effective for agriculture, and farmers were to be assured a “fair share of the national income”.

The present concept of parity prices for agricultural commodities, which came into popular use in the 1930's, thus actually originated with the equalization-fee plan. The plan envisaged the maintenance of agricultural prices at the parity with non-farm commodities that existed in the period 1909-1914. This base period continued to be used in computing agricultural parity prices up until recent years. It was chosen because agricultural interests considered it to be a period of reasonably normal relationship between the prices of agricultural commodities and non-agricultural products.⁸⁶ Also, 1909 marked the start of monthly collection of prices by the Department of Agriculture. This base period was, in fact, biased in favor of the farmer since the price relationships were on the whole more favorable to farmers during this period than during any earlier five-year period.⁸⁷

Because of the relative inelasticity of demand for agricultural commodities in the domestic market, the plan presumed that the enhanced prices received for the domestically sold portion of the supply would more than offset the losses from dumping abroad. It was incorrectly assumed that the size of the purchases of the govern-

⁸⁵ *Equality for Agriculture*, Moline, Ill., 1922, p. 3, as quoted by Murray R. Benedict in *Farm Policies of the United States 1790-1950*, p. 209.

⁸⁶ Geoffrey S. Shepherd, *Agricultural Price Analysis*, Ames, Iowa, 1950, p. 233.

⁸⁷ Waite and Trelogan, *loc. cit.*, and Joseph S. Davis, *Food as an Implementation of War*, Food Research Institute, Stanford University, 1943, p. 12.

ment-sponsored corporations would determine the increase of domestic prices.⁸⁸ It was not realized at that time that the amount of the import duty upon the commodities was what would determine the domestic prices.

As Henry A. Wallace pointed out:

"The feeling was in those days that there was an inexhaustible and complacent foreign market on which goods could be dumped at a low price without fear of retaliation."⁸⁹

However, the United States would not permit other nations to dump their goods on her domestic market! She employed countervailing duties authorized in Section 201 of the Anti-Dumping Act of 1921, the Tariff Act of 1922 and later in Section 303 of the Tariff Act of 1930 as a means of protecting domestic producers from such unfair competition.⁹⁰ Still, the adverse reaction to dumping is not limited to the receiving country. Other countries exporting the same commodity, rightly, feel that such action encroaches unfairly on their markets. Therefore, retaliatory action with respect to other goods and markets is commonplace.

The branching of the tariff power throughout the trading world in the 1920's and 1930's into export subsidies, import quotas, etc., could not have been surprising to United States farmers. The equalization-fee plan had pioneered the concept. The United States' farmers were her first economic nationalists.

The Farm Bureau Federation persistently supported the equalization-fee plan. In 1923 H. C. Wallace decided that something like the plan was needed to make the tariff effective for agriculture.⁹¹ W. M. Jardine disapproved of the plan because he did not favor the price-fixing involved.⁹² President Coolidge agreed with Mr. Jardin. He naively defended the existing tariff system as being effective for agriculture and, in a speech before the Farm Bureau Federation in 1925, described agriculture as being nearly back to normal.⁹³

Five McNary-Haugen Bills incorporating various versions of the equalization-fee plan were introduced in Congress between 1924 and

⁸⁸ Murray R. Benedict, "The Trend in American Agricultural Policy 1920-1949", *Zeitschrift Für Die Gesamte Staatswissenschaft*, 106 Band, 1950, p. 100.

⁸⁹ *New Frontiers*, New York, 1934, p. 148.

⁹⁰ The Tariff Act of 1922, for example, provided for special penalties on imports "sold in the United States or elsewhere at less than its fair value" when, as a result, any domestic industry "is being or is likely to be injured".

⁹¹ Wallace, *New Frontiers*, p. 147.

⁹² Arthur P. Chew, "Nationalistic Trends in Agricultural Policy", *Journal of Farm Economics*, Vol. XXVI, No. 1, February, 1944, p. 66.

⁹³ Black, *Agricultural Reform in the United States*, pp. 71-72.

1928. In 1927 and 1928 the bills were finally passed by Congress only to be vetoed by President Coolidge. As Secretary of Commerce, Herbert Hoover had persistently opposed the equalization-fee plan. When he became President in 1929 the equalization-fee plan ceased to be considered in governmental circles.

b) *Export-Debenture Plan.*

The export-debenture plan grew from the same basic concept as the equalization-fee plan. It attempted to correct the price disparity caused by the fact that farmers generally sold on a world market and bought in a protected home market by raising prices of agricultural export commodities. Unlike the equalization-fee plan it was not complex. Exporters of agricultural commodities would receive certificates, known as debentures, from the Treasury. These debentures were to be negotiable in the payment of import duties. It was expected that the domestic price would rise by roughly the amount of the export bounties.

The Grange supported the export-debenture plan. It was first introduced to Congress in the McKinley-Adkins Bill of 1926 and received its greatest publicity in the Jones-Ketcham Bill of 1928. However, no bill embodying the plan was ever passed by Congress. Like the equalization-fee plan, the export-debenture plan was mainly significant in that it pointed the way toward economic nationalism that United States agriculture was soon to follow with ever-increasing momentum.

c) *Domestic-Allotment Plan.*

Neither the equalization-fee plan nor the export-debenture plan contained adequate machinery to regulate production. In fact, they would tend to stimulate production of the commodities affected. The domestic-allotment plan, first proposed in 1926, attempted to correct this deficiency. Also it was becoming evident that dumping would not be tolerated by European nations who were attempting to protect their own farmers. The final version of the domestic-allotment plan did not require dumping since it did not attempt to separate the domestic price from the world price. Rather, the final version of the plan would reward producers who adjusted their production by means of direct allotment payments.

The earlier versions of the plan specifically would raise the price of the domestically consumed portion of the agricultural export commodities by an amount equal to the prevailing tariff. The surplus above domestic consumption requirements would be exported at world

prices. This would be accomplished by giving the farmers certificates permitting them to sell domestically a specific amount or "domestic allotment". The farmers would sell these certificates to processors who would be required to have certificates to cover the amount of the commodity which they sold domestically. Farmers would be discouraged from producing in excess of their "domestic allotment" since they would receive only the world price on all production in excess of their "domestic allotment". The Farmers' Union gave this plan its backing.

A modified version of the plan, in which the certificates were replaced by direct benefit payments which were to be paid on the "domestic allotment" out of the proceeds of a processing tax and which were contingent on reduction of output, was presented to Congress in the Hope-Norbeck Bills in 1932. President Roosevelt favored this approach, and the final version of the domestic-allotment plan became the basis of the Agricultural Adjustment Act of 1933.

6. PERIOD OF THE AGRICULTURAL MARKETING ACT.

a) *Genesis of the Act.*

In the 1926 report of the National Industrial Conference Board⁹⁴ entitled *The Agricultural Problem in the United States* the following statement appeared:

"The farm in the past has been the main source of our free and self-reliant national type, and a radical change in this respect may have an important influence upon American society in the future. Our farms are more than places: they are homes. Agriculture is not merely an industry; in a broad sense it is a social institution."⁹⁵

This statement represented the opinion of an even-increasing segment of the population in 1927 and 1928 as prosperity in the urban areas of the United States accelerated while the rural areas remained depressed. Consequently, more and more people began to favor "farm relief".⁹⁶

As Professor Edwin G. Nourse wrote:

"It was the reaching of an apparent ceiling on the ability of individual proprietorship, even voluntarily associated in co-operative organizations, to be effective at the point where the market me-

⁹⁴ An Organization for the study of questions affecting the welfare of American industrial-economic life.

⁹⁵ New York, 1926, p. 4.

⁹⁶ Persia C. Campbell, *American Agricultural Policy*, London, 1933, p. 236.

chanisms affects the determination of prices, that led... to the adumbration of a logic of government control within the agricultural industry distinctly at variance with the American farm system up to that time.”⁹⁷

In its report entitled *Conditions of Agriculture in the United States and Measures for its Improvement* the Business Men’s Commission on Agriculture considered governmental aid to agriculture as something appropriate and beneficial “to our system in its entirety”. In addition to reduction of tariffs, the report recommended government aid to stabilize agricultural income. W. A. Jardine, in his last annual report in 1928, recommended the establishment of a Federal farm board.⁹⁸ Professor Joseph S. Davis, however, was pessimistic as to the results that such a governmental board could accomplish. In 1928 he wrote:

“I do not believe that agricultural cooperation will solve the farmers’ difficulties, with or without the aid of government funds.”⁹⁹

In his nomination acceptance address in 1928, Herbert Hoover said:

“A nation which is spending ninety billions a year can well afford an expenditure of a few hundred millions for a workable program that will give to one-third of its population their fair share of the nation’s prosperity... The object of our policies is to establish for our farmers an income equal to those of other occupations...”¹⁰⁰

In the presidential campaign that followed, Mr. Hoover continued to promise to remove the inequality between agriculture and other industries. He spoke of agricultural self-sufficiency and a Federal farm board.

Mr. Hoover’s campaign commitments forced him to take some action to improve agriculture’s position when he became President. He persuaded the House of Representatives to reject the export-debenture plan, and he gave his backing to the Agricultural Marketing Act. A. M. Hyde, Secretary of Agriculture under Mr. Hoover, did not wholly approve of the plan incorporated in the Act. He objected to the price fixing involved.¹⁰¹ The general farm organizations did not

⁹⁷ “The Ambivalent Logic of Agricultural Control in the United States”, *Proceedings of the International Conference of Agricultural Economists*, 1953, pp. 524-525.

⁹⁸ U.S. Department of Agriculture, *Yearbook of Agriculture*, Washington D.C., 1928, p. 28.

⁹⁹ “America’s Agricultural Position and Policy”, *Harvard Business Review*, Vol. VI, No. 2, January 1928, p. 149.

¹⁰⁰ *The New York Times*, August 12, 1928, p. 2.

¹⁰¹ Chew, *op. cit.*, p. 67.

feel that the Act would provide effective control of surpluses or raise farm prices sufficiently. However, it was obvious that President Hoover would never accept the equalization-fee plan or export-debenture plan. Consequently, they were forced to accept the Agricultural Marketing Act.

b) *Agricultural Marketing Act and Federal Farm Board.*

President Hoover made good his campaign promise to attempt to improve agriculture's position when, in June 1929, he signed the Agricultural Marketing Act. The Act created the Federal Farm Board and assigned it the job of preventing and controlling agricultural surpluses through orderly production and distribution so as to prevent excessive fluctuation in prices. The Act marked the first attempt, except by the imposition of tariffs, of the Federal Government to increase directly the level of farm prices. It inaugurated the policy of large-scale "orderly marketing" or supply equalization through governmental action to withhold commodities from the market. However, the relation of such action to international trade was not generally recognized at this time.¹⁰² Still, the Act did not mark the end of the period of "assisted *laissez-faire*" since the Act involved only a few products.

At the beginning of the program, the Federal Farm Board focused its attention upon raising farm prices by reducing the price spread between farmers and consumers through greater marketing efficiencies. Cooperative marketing was to be the solution. There was also the expectation that the cooperatives, with government assistance, would be able to market agricultural commodities with the greater control over prices that large industrial corporations possess by withholding supplies when prices are low.

As conditions became worse, the Federal Farm Board emphasized commodity loans and purchases for price supports. Thus, at least for cotton and wheat, and to lesser extent for butter, raisins, wool and mohair, the government program took on more of the characteristics of a government monopoly. The Board was provided with a fund of \$500 million for making commodity loans available to national farm cooperatives or for acquiring surpluses through "Stabilization Corporations". The commodity loans were to cooperatives in the first instance but through them to the individual producers. The loans were to enable the cooperatives to withhold commodities

¹⁰² Howard R. Tolley, "World Trade and American Agriculture", *Journal of Farm Economics*, Vol. XXXII, No. 4, Part 2, November 1950, p. 802.

from the market during depressed periods. The "Stabilization Corporations" were quasi-public agencies which bought, with government funds, stocks of various agricultural commodities in order to strengthen a weak market. The Federal Farm Board financed large-scale purchases of only wheat and cotton, but loans were made for some twenty commodities. At one time the Board controlled over 250 million bushels of wheat and 3,500,000 bales of cotton.¹⁰³ Between 1929 and 1933 the Federal Farm Board spent approximately \$ 400 million.¹⁰⁴

c) *Results Achieved.*

The problem of excess agricultural production following the cessation of wartime and early postwar demand had not been solved when United States agriculture was hit by the greatly reduced demand brought about by the Great Depression of 1929.

The action of the Federal Farm Board was not sufficient to save United States farmers from the world-wide depression. Agricultural output remained almost constant while prices fell drastically. In 1931 and 1932, for example, corn and wheat output was just below World War I levels and cotton output was above World War I levels. The index of farm prices, on the other hand, fell from 146 in 1929 to 65 in 1932.¹⁰⁵ Gross farm income dropped from 11.9 billion to 5.3 billion in the same period. The estimated value of farm real estate fell from an index of 116 in 1929 to 73 four years later. The number of forced sales and related defaults rose from 19.5 per 1,000 farms to 54.1 per 1,000 farms during the same period.¹⁰⁶ To add to the farmers' troubles, the production of the goods farmers buy was cut drastically while prices remained almost constant. Between February 1929 and February 1933 the production of processed farm goods fell only 15 per cent while the production of processed non-farm goods fell 65 per cent. During the same period, the wholesale prices of non-agricultural products fell 28 per cent while the wholesale prices of farm products fell 61 per cent.¹⁰⁷ The ratio of prices received by farmers to prices paid by them stood at 58 in 1932.¹⁰⁸

The existence of government-owned inventories tended to depress the market and offset the original gain of temporary price stability.

¹⁰³ Ezekiel and Bean, *op. cit.*, p. 57.

¹⁰⁴ C. Addison Hickman, *Our Farm Program and Foreign Trade*, New York, 1949, p. 11.

¹⁰⁵ See figure in Appendix.

¹⁰⁶ Arthur C. Bunce, *Economic Nationalism and the Farmer*, Ames, Iowa, 1938, p. 21.

¹⁰⁷ Ezekiel and Bean, *op. cit.*, p. 40.

¹⁰⁸ See figure in Appendix.

No one could be sure just when these inventories might be sold. Alexander Legge, Chairman of the Federal Farm Board, soon was convinced that it was futile to attempt to maintain prices without production controls.¹⁰⁹ W. J. Spillman of the Department of Agriculture brought out the need for production control in a book entitled *Balancing Agricultural Output*. Professor John D. Black, the second chief economist for the Board, put some of his aids to work on a plan which would include production control.¹¹⁰ As Professor Karl Brandt wrote:

"The experiment failed because it dealt with symptoms not with the disease. It attempted to avert the effects of over expanded production without curtailing production."¹¹¹

In the early days of the program, the cooperatives were expected to induce farmers voluntarily to reduce production and thereby prevent surpluses from arising. Such expectations were not realistic. Neither the Federal Farm Board nor the cooperatives had sanctions with which to secure compliance. The hope of individual profit prevented the individual farmer from reducing his output. The later government loans and purchases temporarily sustained prices but only tended to encourage production and possibly to contract consumption and export by altering the normal relations between prices in the domestic and foreign markets.

During the three years that it was in existence, the Federal Farm Board lost \$ 329 million.¹¹² In its last annual report, the Federal Farm Board confessed its inability to solve the farm problem without authority to control production. It stated:

"Experience with stabilization thus demonstrates that no measure for improving the price of farm products other than increasing the demand of consumers can be effective over a period of years unless it provides a more definite control of production than has been achieved so far. In a few limited specialized lines, cooperative associations have made progress toward such control. For the great staple products however, the problem still remains for future solution."¹¹³

Thus, the experience with the Federal Farm Board served to guide the Federal Government to take the next step of linking control of market supplies with production control.

¹⁰⁹ Wallace, *New Frontiers*, p. 156.

¹¹⁰ *Ibid.*, p. 157.

¹¹¹ *The Reconstruction of World Agriculture*, New York, 1945, p. 75.

¹¹² Rainer Schickele, *Agricultural Policy*, New York, 1954, p. 189.

¹¹³ *Third Annual Report of the Federal Farm Board for the Year Ending June 30, 1932*, Washington D.C., 1932, p. 62.

d) *Agriculture Demands a Change.*

When it became evident that the Federal Farm Board could not solve the agricultural problem, the Grange again championed the export-debenture plan and the Farm Bureau reiterated its demand for the equalization-fee plan. In 1932, Senator Thomas of Oklahoma introduced a bill to abolish the Federal Farm Board and to secure to the farmer a price for agricultural products at least equal to the cost of production. The year 1932 also saw the farmers in the cornbelt take matters into their own hands by creating an artificial scarcity by restricting the shipments of commodities to the markets.¹¹⁴ Increasing numbers of members of the House of Representatives, senators, farm leaders and government officials were beginning to favor production control.¹¹⁵ President Hoover, in his second nomination acceptance speech in 1932, said, however:

"There is no relief to the farmer by extending government bureaucracy to control his production and thus curtail his liberties, nor by subsidies that bring only more bureaucracy and ultimate collapse. I shall oppose them."¹¹⁶

Neither the Democratic platform nor Franklin D. Roosevelt in his campaign utterances espoused the idea of production control in explicit terms, although Mr. Roosevelt accepted the principle of planning as a means of raising farm prices. However, upon taking office, President Roosevelt immediately took action to attempt to solve the agricultural problem through increased governmental intervention.

D. SUMMARY AND CONCLUSIONS

None of the attempts of the farmers themselves or of the Federal Government to improve agriculture's position during the period 1921-1933 proved successful. Not all segments of agriculture suffered continuously during this period. Some segments, especially dairying and speciality fruits, prospered, up until 1929, as a result of urban prosperity and new consumer tastes. However, the export commodities were continuously depressed. The basic problem of excess production in most segments of United States agriculture had not been solved

¹¹⁴ Clay, *op. cit.*, pp. 148-149.

¹¹⁵ Edwin G. Nourse, Joseph S. Davis and John D. Black, *Three Years of the Agricultural Adjustment Administration*, Washington D.C., 1937, p. 12.

¹¹⁶ As quoted by Nourse, Davis and Black, *op. cit.*, p. 11.

when the greatly reduced demand for agricultural commodities brought about by the general business depression of 1929 threw all of United States agriculture into trouble.

Gross farm income, which stood at approximately \$ 17 billion in 1919, fell to approximately \$ 12 billion in 1929, to approximately seven billion dollars in 1931, and to approximately five billion dollars in 1932.¹¹⁷ During the 1920's United States agriculture received only approximately ten per cent of the national income, while making up 24 per cent of the working population. By 1932, agriculture received only about seven per cent of the national income with 23 per cent of the nation's workers in agriculture.¹¹⁸ Even considering different labor skills, outside income sources, varying consumer prices and consumption patterns, agriculture's position was very unfavorable in relation to the rest of the economy. From the end of World War I to 1921, the index of farm prices had remained above 200.¹¹⁹ In 1921 the index fell to about 100 and fluctuated between 125 and 150 up until 1929 but never regained parity with non-agricultural prices. From 1929 to 1933 agricultural prices fell, and agriculture's position in relation to the rest of the economy worsened. By 1932 the index of farm prices had fallen to 65, and the parity ratio stood at 58.

¹¹⁷ Mc Isaac, Modlin and Luthringer, *op. cit.*, p. 318.

¹¹⁸ Schickele, *op. cit.*, p. 141.

¹¹⁹ See figure in Appendix.

PART 2

EVOLUTION OF THE CONFLICT

I. GROWTH OF DIVERGENCIES

A. INTRODUCTION

The agricultural policy side of the conflict had its origin in the interference of the Federal Government in the domestic market during the period of the Agricultural Marketing Act. However, governmental interference during this period was limited to a small segment of agriculture. With the advent of the Agricultural Adjustment Act of 1933, the Federal Government extended its interference to a much greater segment of agriculture. The conflict between the policies did not commence, however, until the United States abandoned high protectionism and embarked upon a trade liberalization movement starting with the Reciprocal Trade Agreements Act of 1934. The first section of this part of the study examines the origin of the conflict during the period 1933-1935. The second section deals with the development of the conflict from 1935 to 1941. This is followed by a section on the development of the conflict during the war period and, finally, a section on the development of the conflict during the 1945-1948 period of reconstruction and great demand for agricultural commodities.

B. 1933-1935

1. AGRICULTURAL ADJUSTMENT ACT AND ASSOCIATED ACTS.

As shown in the previous part of this study, agricultural prices fell faster and further than other prices after the general business decline of 1929.¹ Because of the general nature of the depression, the agricultural population could not find work in other segments of the economy and the net migration from the rural areas declined, thus further reducing the individual farmer's income.² This loss of

¹ See above, p. 57.

² Reproduction rates are higher for rural farm areas than for urban areas. For example, in 1935-40 the net reproduction rates were 1616 for rural farm areas and only 726 for urban areas. D. Gale Johnson, *Trade and Agriculture*, New York, 1950, p. 45. Thus, in order to avoid a relative decline in per capita farm income owing to the higher farm birth rate, about 300,000 people must

the farmer's purchasing power was an important factor in the weakening of the entire economy.³ It was now generally believed that something had to be done to restore this purchasing power or general recovery could not be achieved.⁴

Congress was content to let the Executive Branch of the Federal Government take the lead in evolving measures to restore this purchasing power and thus the way was open for New Deal action.⁵ President Roosevelt had little sympathy with the *laissez faire* conviction that the government should not intervene with respect to prices. Rather, he agreed with John Maynard Keynes when the latter wrote in 1933:

"We each have our fancy... we each should like to have a try at working out our own salvation. We do not wish, therefore, to be at the mercy of world forces working out, or trying to work out, some uniform equilibrium according to the ideal principles, if they can be called such, of *laissez-faire* capitalism... We wish — for the time at least and so long as the present transitional phase endures — to be our own masters, and to be as free as we can make ourselves from the interference of the outside world."⁶

An important element of the New Deal recovery program was to be the raising of farm commodity prices and farmers' incomes.

Three days after his inauguration, President Roosevelt made good the statement in his acceptance speech that the Democratic Party stood ready "to be guided by whatever the responsible farm groups themselves agree on". He had Henry A. Wallace call a conference of farm leaders for the purpose of reaching an agreement on action to

move out of agriculture annually. Migration from the farm is lowest during depressions thus increasing agriculture's plight during depressions. During the period 1922-1929 the annual net migration from farms to non-farm areas was 675,000. This figure fell to less than 200,000 in the depression years 1930 to 1934 but increased to 620,000 during the recovery years 1934-1937. It fell again to 450,000 in the depression years of 1938 and 1939 but increased to 1,400,000 during the war years 1940 to 1944 even though the war brought a much greater improvement in farm than in non-farm income. Don D. Humphrey, *American Imports*, New York, 1955, p. 256.

³ It is widely believed that there is something special about agriculture that makes its prosperity and well-being vital to the nation. Quite a number of books have been written on this problem. Some economists believe that "depressions are farm led and farm fed", or at least that farm income and/or farm prices have a greater effect on the general economy than either labor or business earnings. Some political scientists believe that the independent family farm is a nation's bulwark of democracy. See, for example, A. Whitney Griswold, *Farming and Democracy*, New York, 1948.

⁴ Nourse, Davis and Black, *op. cit.*, pp. 20-21.

⁵ John D. Black, "Agriculture in the Nation's Economy", *The American Economic Review*, Vol. XLVI, No. 1, March 1956, p. 22.

⁶ "National Self-Sufficiency", *The Yale Review*, Vol. XXII, No. 4, June 1933, pp. 761-762.

be taken. Leaders of the Grange, Farm Bureau, Farmers' Union, farm commodity cooperative organizations and the farm press were present. In desperation, they willingly followed Mr. Wallace's leadership.⁷ Mr. Wallace had forewarned the action that he now recommended in a paper delivered before the 1929 meeting of the International Conference of Agricultural Economists in which he recommended that some scheme be devised to give:

"... to agriculture the moral, legal, and economic equivalent of what the corporate form of organization has given to industry, and yet maintain the family-size farm."⁸

The conference called by Mr. Wallace agreed to a set of principles which were ultimately included in the Agricultural Adjustment Act passed in May 1933 with the backing of the farm organizations and after relatively little debate in Congress. The original Act was later amended several times to broaden its scope and modify the actions that it called for. It was also supplemented by other acts, executive orders and administrative rulings.

Competition was now frowned upon in the agricultural as well as the other segments of the economy as is generally the case during periods of stagnated economic growth.⁹ The agricultural segment of the economy thus agreed to the logic of national economic and social planning. The original Agricultural Adjustment Act was based upon the conviction that if farmers are left alone to make individual autonomous solutions to managerial problems they will not add up to a solution correct in the aggregate. The original Agricultural Adjustment Act proposed, as Professor Edwin G. Nourse stated:

"... to start at the other end of the line by computing national aggregates... and then devising an administrative machinery which shall be effective in breaking these aggregates down to individual farm components without infringing unduly our traditional sense of personal freedom."¹⁰

The Agricultural Adjustment Administration (AAA), which was created within the Department of Agriculture to carry out the provisions of the Agricultural Adjustment Act, established reduced production goals for staple export commodities and administered a series

⁷ Benedict, "Attempts to Restrict Competition in Agriculture: The Government Programs", *Amer. Econ. Rev.*, May 1954, p. 97.

⁸ "Relation of the Tariff to Farm Relief in the United States", *Proceed. Internat. Conference Agric. Economists*, 1929, p. 180.

⁹ Cf. Karl Pribram, *Cartel Problems*, Washington D.C., 1935, p. 21.

¹⁰ "The Ambivalent Logic of Agricultural Control in the United States", *Proceed. Internat. Conference Agric. Economists*, 1952, p. 523.

of devices to assure that the productive and marketing operations of the individual farmer would become a consistent part of planned goals. The original Agricultural Adjustment Act authorized production controls for seven "basic" crops — wheat, cotton, corn, hogs, rice, tobacco, milk and its products. The list of "basic" crops was changed in succeeding Acts and production controls were also authorized for "non-basic" commodities. During the first year of the AAA production control programs were put into operation for cotton, corn, hogs, tobacco and wheat. It was hoped that such action would make possible a reduction in carry-over supplies and would raise prices both immediately and in the long run. Direct income payments were used to induce farmers to reduce their acreage or marketings as well as directly to increase their purchasing power. From 1934 to 1941 government payments to farmers equalled \$ 4.4 billion.¹¹ Such payments were financed until 1936 by a tax collected at the first stage of processing of the "basic" commodities.¹² Farmers were not forced to reduce production. They had the free choice of going their own way or receiving payments in return for agreeing to limit production.

The acreage allotment program of the AAA did not appreciably affect prices because it did not, except to a limited extent in the case of cotton and wheat, reduce output since farmers succeeded in increasing output on the smaller number of acres allotted them. From 1930-32 to 1938-40 cotton production was reduced 17 per cent, wheat production was reduced four per cent, corn production was unchanged, and tobacco production increased 12 per cent.¹³ Marketing quotas, grade and quality regulations, and actual destruction of output were resorted to with greater success. In the fall of 1933 the Federal Government instigated the "cotton plow-up campaign" and the pig-killing campaign. These two campaigns increased the prices of the commodities involved but met strong public disfavor. As Professor Joseph S. Davis wrote:

"... much if not most of what deserves the name production control in agriculture seems to me unattainable in so far as it is desirable, and undesirable in so far as it is attainable."¹⁴

Also, steps were taken to increase demand for agricultural commodities through purchases of agricultural commodities by the AAA and the

¹¹ U.S. Department of Agriculture, *Agricultural Statistics*, Washington D.C., 1945, p. 438.

¹² The idea of the processing tax, it will be remembered, originated with the domestic-allotment plan. See above, p. 54.

¹³ Geoffrey Shepherd, "Changing Emphases in Agricultural Price Control Programs", *Journal of Farm Economics*, Vol. XXVI, No. 3, August 1944, pp. 483-484.

¹⁴ *On Agricultural Policy 1926-1938*, Stanford University, 1939, p. 371

Federal Surplus Relief Corporation for distribution to people on relief or to special groups.¹⁵

The original Agricultural Adjustment Act included a definition of a price-support norm, that of parity prices, and a declaration of intent to reestablish parity prices for agricultural commodities as soon as possible. The concept of "fair exchange value" had won out over the concept of "cost of production" which had long had a strong backing among farmers.¹⁶ The principal farm organization leaders now found parity a good rally call with their members, as did members of the House of Representatives and senators with their constituents.¹⁷ The Act specifically stated that Congress intended to:

"... reestablish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period. The base period in the case of all agricultural commodities except tobacco shall be the prewar period, August 1909 - July 1914. In the case of tobacco, the base period shall be the postwar period, August 1919 - July 1929".¹⁸

The administrators of the Act, however, were:

"... to approach such equality of purchasing power by gradual correction of the present inequalities therein at as rapid a rate as is deemed feasible in view of the current consumptive demand in domestic and foreign markets."¹⁹

The parity concept is not in harmony with the concept of equilibrium returns to management, labor and capital in various farm and base uniformly to all products was not desirable. They realized that changing conditions of production and consumption make flexibility highly necessary. Congress was soon to forget this fact.²⁰

The parity concept is not in harmony with the concept of equilibrium returns to management, labor and capital in various farm and non-farm uses. Freezing past relationships into the economic structure for the future impairs economic adjustment. Even if prices in the base periods used for computing parity were in an economically desirable relationship, the use of the same formula would not promote a satisfactory functioning of the economy at a later date unless conditions of technology, demand, and other economic factors had

¹⁵ Food stamp and school lunch plans.

¹⁶ Black, *Parity, Parity, Parity*, p. 53.

¹⁷ *Loc. cit.*

¹⁸ *U.S. Statutes at Large*, Vol. 48, Part I, 1934, p. 32.

¹⁹ *Loc. cit.*

²⁰ See below, pp. 81-82.

remained the same, or unless changes had affected all prices and quantities in substantially the same way. Obviously this is not the case in a dynamic society. Parity does not, therefore, reflect the current normal production, consumption and market-price relationships between different agricultural products.

Parity prices, furthermore, are not related to world farm commodity prices. They are related only to industrial prices. Parity prices thus lose contact with world agricultural prices. Thus, parity prices must often be protected by import restrictions from the influence of world agricultural prices.

How parity for any product was to be attained was not spelled out in the Act. George N. Peek, the first Administrator of the AAA,²¹ favored marketing agreements that would bind processors and handlers to pay the farmers parity prices. Chester Davis, his assistant, favored moving in the direction of stabilizing production at a level that would support the parity price.²² When, in March 1934, President Roosevelt backed Mr. Davis, Mr. Peek became Special Advisor to the President on Foreign Trade, and Mr. Davis became Administrator of the AAA in December. Thus, parity was to be achieved gradually and, during the early days of the AAA, mostly as a result of production adjustments.

It soon became evident that attempts to control production and increase demand were not succeeding in solving the farm problem. Farmers intensified their farming methods on the acres they were allowed to plant. In addition, factors beyond the farmer's control²³ may vary the output per acre as much as 50 per cent from one year to another.²⁴ Consequently, even though the original Agricultural Adjustment Act did not stress commodity loans and contained no special provisions for them, four months after the passage of the Act, pressure for immediate and effective price support became so great that the AAA was forced to take recourse to actual market operations. "Non-recourse" loans,²⁵ mainly for storable com-

²¹ See above, p. 50.

²² Black, *Parity, Parity, Parity*, p. 55.

²³ Rainfall, evaporation rate, temperature, diseases, etc.

²⁴ D. Gale Johnson, *Agricultural Price Policy and International Trade*, International Finance Section Department of Economics and Social Institutions, Princeton University, 1954, p. 4.

²⁵ "Non-recourse" commodity loans are, in effect, government purchase contracts in which the farmer, as the seller, retains title to the products but turns them over to the Federal Government and has an option to buy them back within a stated period of time by repaying the loan. Thus, the farmer can take advantage of any price rise that might occur between the date he receives the loan and the date the loan is called. If he does not repay the loan when it falls due, the Federal Government takes title to the commodity in satisfaction of the loan and the farmer keeps the money advanced.

modities, and governmental purchases, mainly for perishables, were now to make up for deficiencies in demand and to stabilize prices from year to year. The National Industrial Recovery Act authorized such loans. In 1935 the Agricultural Adjustment Act itself was amended to authorize a loan program. Restricted supply and expanded demand were to increase prices over the long-run. Results were not exactly as anticipated and loans and purchases have been used for both purposes.

Since the original Agricultural Adjustment Act did not contain any special provisions for commodity loans, the Commodity Credit Corporation was created by executive order in October 1933 and was the subject of the first Act passed by the 74th Congress in January 1935. It was to make "non-recourse" commodity loans to farmers under the condition that they participate in a production control program if such a program were in effect for the respective commodity. The Secretary of Agriculture was given great discretion in setting the loan level under the original Agricultural Adjustment Act since the Act did not specify the level of price support as a per cent of parity. The first loan program was for cotton and corn in the fall of 1933. These loans were at approximately 70 per cent of parity.

Section 12 (b) of the original Agricultural Adjustment Act authorized the Secretary of Agriculture to use the proceeds of processing taxes for expansion of markets and removal of surplus agricultural products.²⁶ In 1933 and 1934, wheat and wheat flour exports from the Pacific Northwest were subsidized under this authorization. The Act also authorized the Secretary of Agriculture to impose duties on imports that competed with domestic agricultural commodities which were subject to a processing tax.

The first use of import quotas was for sugar in 1934. These import quotas were authorized under the Jones-Costigan Act which was signed by President Roosevelt in May 1934. Since the sugar program did not include a commodity loan provision, import quotas at first, obviously, were not envisaged as an adjunct to price supports.

With the authorization of governmental intervention in the agricultural commodity market and accompanying import duties and export subsidies in May 1933 and the authorization of import quotas for sugar in May 1934, the United States made it evident that the agricultural segment would be protected from competition from abroad. Henceforth, if the United States were to initiate a trade liberalization movement a conflict would evolve. This was precisely what happened in June 1934.

²⁶ This general authorization was made more specific two years later. See below, pp. 79-80.

2. RECIPROCAL TRADE AGREEMENTS ACT.

In 1933, as today, numerous major agricultural commodities, including livestock, grains, cotton, fruits and tobacco, were geared to large exports. Over 40 million acres were producing crops which could not be consumed within the country.²⁷ When these export crops could not find foreign markets, farmers were forced to shift part of their land to essentially domestic crops such as dairy and poultry products and vegetables. Thus, the resulting pressures from loss of export markets affected all of United States agriculture.

The Democratic Party platform of 1932 advocated reciprocal tariff reductions²⁸ to increase markets for United States industrial products and agricultural export crops. In November 1933 President Roosevelt created the Executive Committee on Commercial Policy. It was given the task of coordinating the various governmental policies in the realm of foreign trade and developing some consistency. The committee presented its recommendations favoring reciprocal trade agreements to President Roosevelt in February 1934. President Roosevelt passed on the committee's recommendations to the House of Representatives together with a message stating that:

"Important branches of our agriculture . . . and those branches of American industry whose mass production methods have led the world, will find expanded opportunities and productive capacities in foreign markets, and will thereby be spared in part, at least, the heartbreaking readjustments that must be necessary if the shrinking of American foreign commerce remains permanent."²⁹

In general, the farm groups favored high tariffs for agricultural commodities during the early New Deal period.³⁰ The Grange bitterly opposed reciprocal trade agreements³¹ and the Farm Bureau favored their use to reduce industrial tariffs only.³² In the hearings on the Reciprocal Trade Agreements Bill before the Senate Committee on Finance, various specific commodity groups expressed the fear that reciprocal trade reductions would result in the loss of the domestic market to imports from abroad. For example, Judge W. Boggess, representing the Texas Wool Growers, stated:

²⁷ Wallace, "American Agriculture and World Markets", *Foreign Affairs*, January 1934, p. 216.

²⁸ See above, p. 50.

²⁹ As quoted by Isaacs, *op. cit.*, pp. 246-247.

³⁰ Benedict, *Farm Policies of the United States 1790-1950*, p. 346.

³¹ Schmidt, *op. cit.*, p. 196.

³² Benedict, *Farm Policies of the United States 1790-1950*, p. 342.

"... if we don't find the markets for the wool that is now being taken off the backs of our sheep, and for the mohair that we have stored there, the great likelihood is that the Government is going to have to come down there and go into the sheep and goat business".³³

An amendment to exempt all agricultural tariffs from the provisions of the Reciprocal Trade Agreements Bill was defeated by only a 54 to 33 vote in the Senate.

Henry A. Wallace gave a clear analysis of the effect of tariffs upon agriculture in his widely discussed study published in 1934 entitled *America Must Choose*. In it he stated:

"American agriculture has not benefited by tariffs, except spottily and for short periods of time. Despite that fact, both Republican and Democratic representatives of our agricultural regions have done their best to put up agricultural tariffs every time industrial tariffs were put up. Unfortunately for agriculture, most of the tariffs given to it are either immediately or in the long run worthless paper tariffs. In tariff matters agriculture has played Esau to the industrial Jacob. Cotton, wheat and lard obviously can never benefit from a tariff as long as we export half our cotton, one-fifth of our wheat, and one-third of our lard. Such products as butter, beef cattle, wool and flaxseed may be helped by the tariff for a number of years but, as the cotton, wheat and hog men shift their attention to the protected products, it is rapidly discovered that the tariff benefits, even on these products of which we do not have any exportable surplus, is a temporary thing."³⁴

Except for the years between 1890 and 1909 the United States tariff was non-negotiable prior to 1934. Duties were established by act of Congress and they could not be altered by the Executive Branch of the Federal Government. Even during the period 1890-1909 when the President had authority to conclude tariff agreements with other nations, his powers were narrowly circumscribed. The McKinley Tariff of 1890 made it possible for the President to negotiate for tariff concessions from other nations in return for continued duty-free treatment of certain of their products. As a bargaining weapon, the President was authorized to place duties on these products. These tariff agreements did not require the approval of Congress. Several such agreements were negotiated and put into effect. The Dingley Tariff of 1897 authorized the President to grant specified minimum rates on a few products in return for concessions

³³ Hearings before the Committee on Finance, Senate, 73rd Congress, Second Session, H.R. 8687, p. 259.

³⁴ P. 8.

by other nations. Such negotiations did not require congressional approval. Limited tariff reductions outside these narrow limits were permitted but required congressional approval. Several such agreements were negotiated but were not approved by the Senate. All the reciprocity provisions of previous acts were repealed by the Tariff Act of 1909.

In June 1934 the bill to amend the Tariff Act of 1930 became law. Under this legislation³⁵ the President was empowered for a period of three years to enter into trade agreements with other countries without congressional approval. The President's tariff-reducing power was limited, however, to 50 per cent of then-existing duty rates.³⁶

In March 1934 President Roosevelt had made George N. Peek his Special Advisor on Foreign Trade.³⁷ Mr. Peek convinced President Roosevelt that reciprocal trade agreements should not be negotiated. Cordell Hull, President Roosevelt's Secretary of State, was afraid that the Reciprocal Trade Agreements Program would be wrecked. He finally convinced President Roosevelt that Peek was wrong.³⁸ In April 1935 Peek was removed from his position and the Reciprocal Trade Agreements Program was saved. Under the able leadership of Cordell Hull,³⁹ who had fought for freer trade in Congress since the First World War, the Reciprocal Trade Agreements Program started the United States on the road toward trade liberalization — a road which her immature creditor-nation status had demanded that she follow ever since World War I. Thus, as Lord Keynes turned away from economic nationalism during World War II, so the United States first turned away from high protectionism in 1934 and attempted to reverse, or at least modify, a world-wide trend toward autarky and economic nationalism.

The Reciprocal Trade Agreements Act was passed by Congress because it was defended as a measure to restore the export markets for United States industry and agriculture. Agriculture's representatives in Congress allowed the 1930 Tariff Act to be amended knowing that the reduced tariffs could be made innocuous by legislatively unauthorized restrictive quotas for imports at the reduced tariff rates which were to be negotiated under the program. Thus, the provisions

³⁵ Section 350 of the Tariff Act of 1930.

³⁶ In 1945 and 1955 the President's tariff-reducing power was further extended.

³⁷ See above, p. 68.

³⁸ Cordell Hull, *The Memoirs of Cordell Hull*, Vol. I, New York, 1948, pp. 370-374.

³⁹ See Cordell Hull, *op. cit.*, and Don D. Humphrey, *op. cit.*, pp. 110-111, for Cordell Hull's beliefs concerning international trade.

of the Act that started the United States on its course toward trade liberalization were never to be used to compromise agriculture's protected position in the United States.⁴⁰ Agricultural interests were to continue to force Congress and the Executive Branch of the Federal Government to ignore, wherever agricultural commodities were involved, the following advice of Henry A. Wallace:

"In well-developed countries like the United States and England, the maximum of consumers' wealth can best be attained with a low tariff. This is an economic truism, which so far as I know is not disputed except by politicians who have an axe to grind or those who, like the farmers of my native Iowa, have been made the intellectual, emotional and habitual victims of the class just mentioned."⁴¹

3. THE CONFLICT OF POLICIES.

The Roosevelt Administration was entirely aware of the conflict between the policies that it was pursuing but the conflict was considered only a temporary concession to necessity. The trade liberalization movement was to be permanent. The agricultural policy was not. As Henry A. Wallace said:

"What we have done has been frankly experimental and emergency in nature, but we are working toward something which is going to be permanent. We are temporizing with the situation until the American people are ready to face facts. The bare, distasteful facts, I mean, involved in such matters of policy as exports, imports, tariffs, international currency, exchange, export quotas, import quotas, and international debts. These are the weapons of economic warfare which are more deadly than artillery. These economic weapons are so subtle that they have a nasty way of bouncing back on you with redoubled force when you think you are using them against the enemy."⁴²

While he favored international economic cooperation, Mr. Wallace felt that:

"At the same time we must recognize as realities that the world at the moment is ablaze with nationalistic feeling, and that... it is highly unlikely we shall move in an international direction very fast in the next few years. Therefore, we must push with the greatest vigor possible our retreat from surplus acres..."⁴³

⁴⁰ Tariff quotas have been used for live cattle, milk, cream, butter, rice, lemons, shelled walnuts, potatoes for eating, and seeds.

⁴¹ *America Must Choose*, p. 10.

⁴² "American Agriculture and World Markets", *Foreign Affairs*, January 1934, p. 225.

⁴³ *America Must Choose*, p. 2.

The protected self-sufficiency that he saw forced upon the United States would, he said, possibly force the United States farmers to withdraw from 40 to 100 million acres from production.⁴⁴

As previously stated, in most cases the production control programs of the AAA during the 1930's were not effective in reducing output.⁴⁵ Professor Theodore W. Schultz therefore concludes that their effect upon foreign trade was negligible.⁴⁶ Professor D. Gale Johnson, however, considers that production control programs do have an effect upon foreign trade even if they are not effective means of curtailing output since, if they are an actual or anticipated means to higher prices, they must be accompanied by import restrictions and export subsidies in most instances. The only exceptions to this rule of production controls requiring export subsidies and import controls are in the case of commodities that have insignificant imports and exports over a large price range and in the case of export commodities of which the United States produces a large per cent of the world's supply and whose output in other countries can not be easily increased. Fluid milk and feed grains are examples of the first-mentioned commodities. Only tobacco, it seems, falls in the second-mentioned category. It would avail the United States farmer very little to restrict output of other commodities without the imposition of import restrictions since reductions in United States output will not have an appreciable effect on world prices unless the reductions are very large indeed.⁴⁷

Direct income payments should not be considered a trade-disrupting device since they do not reduce consumption nor do they separate the domestic price from the world price.

As in the case of government purchases of cheese in World War II, government purchases may be only a means of paying a subsidy⁴⁸ and are in such cases not trade-disrupting devices. Usually, however, the Federal Government has taken actual possession and title of the commodity. Such action is extremely likely to require bolstering through import restrictions to prohibit increased imports and export subsidies to dispose of the commodity without lowering domestic prices. In the early 1930's, however, government purchases were dumped into relief channels rather than into export channels, thereby eliminating the need for export subsidies.

⁴⁴ *Ibid.*, p. 10.

⁴⁵ See above, p. 66.

⁴⁶ *Agriculture in an Unstable Economy*, New York, 1945, p. 140.

⁴⁷ See Johnson, *Trade and Agriculture*, pp. 32-33.

⁴⁸ The Federal Government buys the commodity and then immediately resells it at a lower price to the original seller.

“Non-recourse” loans have adverse effects upon foreign trade whenever they are higher than prevailing market prices. Both domestic and foreign sales contract and stocks accumulate. The two-price system must be protected by import restrictions and often export dumping. Furthermore, price supports on one commodity may raise the domestic market prices of other similar commodities. For example, high price supports for wheat and corn raise the market prices of similar grains and high supports for butter raise the market prices of other dairy products. This may lead to increased imports and increased demand for import restrictions.

The export subsidies and import duties authorized by the original Agricultural Adjustment Act obviously were in direct conflict with the trade liberalization movement. The import quotas authorized under the Jones-Costigan Act were an even more important landmark in the developing conflict of policies. These import quotas marked the first use of quantitative trade restrictions by the United States.⁴⁹ Up to the present time, the United States has resorted to import quotas to protect solely the agricultural segment of the economy. Such quantitative restrictions may be insensitive to changes in demand, costs of production and prices and greatly enhance the possibility of arbitrary and discriminatory action in assigning shares of the market. Import quotas are more effective than tariffs in isolating the domestic market from the influence of world supplies. Agricultural commodity exporting nations may be able to overcome high tariff barriers by improving their competitive position by increasing efficiency and reducing costs. No amount of ingenuity or efficiency on their part, however, will increase the amount of commodities that can be imported above the established quota. Competition between domestic and foreign producers is thus eliminated, once a quota is filled. If quotas are allocated among different supplying nations and among different domestic importers, the channels of trade are frozen completely. The tariff quotas for agricultural commodities included in various reciprocal trade agreements is yet another case of agricultural interests holding back the trade liberalization movement.

Opposition to quantitative trade restrictions is a cornerstone of United States commercial policy. A recent expression of United States attitude regarding quota restrictions was a statement by President Eisenhower in a White House press release dated November 22, 1954 in which he rejected a Tariff Commission recommendation for a quota on spring clothes pins. He stated that:

⁴⁹ See above, p. 69.

"... Even if some restrictive action were warranted in his case, I should be particularly hesitant to impose an absolute quota on imports in a case of this kind. We have been very concerned that sales abroad of many American export products have been seriously hurt during recent years by quantitative limitations imposed by various foreign countries, thus curtailing the play of competition even when product and its price are better."⁵⁰

The conflict of policies thus becomes clear. On the one hand, the Federal Government interferes with the domestic market for the purpose of raising agricultural commodity prices and farmers' incomes. This action tends to isolate domestic prices from world prices. The Federal Government then steps in to protect domestic prices. On the other hand, in its commercial policy the United States has, since 1934, abandoned the strictly nationalistic, unilateral approach and has been moving toward freer trade and multilateralism. The conflict of policies was serious as early as 1934 but few people worried very much about it at that time since it was to be only temporary!

C. 1935-1941

1. RECIPROCAL TRADE AGREEMENTS PROGRAM.

From 1934 until 1941 the Reciprocal Trade Agreements Program was pushed cautiously forward by the Roosevelt Administration. The Reciprocal Trade Agreements Program was during the 1930's, and continues to be today, restrained by special interests in all segments of the economy, but by none more vehement than those within the agricultural segment. The general farm groups continued to be opposed to any tariff reductions on agricultural commodities. In 1936 the Grange recommended control of agricultural commodity imports through permits, reduction of agricultural commodities on the "free list" and revision of the Reciprocal Trade Agreements Act to require ratification of trade agreements by the Senate and elimination of the most-favored-nation clause.⁵¹ The Farm Bureau continued to take the position that tariff reductions should be made on industrial products only.⁵²

Francis B. Sayre, Assistant Secretary of State during the Roosevelt Administration, wrote in 1939:

⁵⁰ Press Release, The White House, November 22, 1954, p. 3 as quoted in *G.A.T.T. An Analysis and Appraisal of the General Agreement on Tariffs and Trade*, United States Council of the International Chamber of Commerce, New York, 1955, p. 56.

⁵¹ William S. Culbertson, *Reciprocity*, New York, 1937, p. 130.

⁵² *Ibid.*, pp. 130-131.

"In three practical ways the trade agreements program benefits the farmer. In the first place it builds up and strengthens foreign markets for his surpluses, both by reducing or eliminating the trade barriers which bar access to those markets and by building up foreign purchasing power . . .

In the second place, the program is of very practical benefit to agriculture through building up increased domestic markets and increased domestic purchasing power . . .

In the third place, the trade agreements program offers to farmers a practical means for increasing what economists call their "*real income*" . . . through a reduction in the cost of the goods he wants." ⁵³

Many farmers did not agree with him. For partisan or other reasons, farmers had been told that the Reciprocal Trade Agreements Program was not in their interest. ⁵⁴ They were told that they should maintain the domestic market for themselves. The reciprocal trade agreements, they were told, were making this impossible. Increased agricultural imports between 1935 and 1937 were cited as proof. The fact that, after the low point of 1933, both total United States exports and total United States imports had increased was not mentioned. The "America Self-Contained" advocates would have destroyed, for the sake of eliminating a relatively small amount of competitive agricultural imports, markets for vitally important agricultural exports.

In a series of bilateral agreements made under the Reciprocal Trade Agreements Program during the 1930's, the United States reduced tariffs on wheat, dairy products, poultry and some meats and agreed to keep certain non-competitive imports on the "free list". These concessions, and others on non-agricultural products, however, proved of very little relief for foreign exporters. The United States' total exports continued to exceed her total imports and most of the gold stocks of the world moved to the United States. The Import Export Bank was established to make loans to United States exporters and to countries importing goods from the United States. By the late 1930's, the Reciprocal Trade Agreements Program had become impotent in dealing with the trade restrictions that were increasingly engulfing the world during the 1930's. Political and military factors had become more important than economic factors in determining

⁵³ *The Way Forward*, New York, 1939, pp. 144-148.

⁵⁴ The 1936 Republican platform advocated repeal of the Reciprocal Trade Agreements legislation. The 1940 Republican platform did not go so far. It merely undertook to distinguish between "genuine reciprocity" and "so-called reciprocal trade agreements". This was the first time that the two major political parties had endorsed reciprocity at the same time.

international trade patterns and movements. Henry A. Wallace was one of the first to see the consequences. In 1934 he wrote:

“... there are many who think that sooner or later the pressure will be bound to blow itself off in another orgy of human killing.”⁵⁵

2. LEGISLATIVE ACTION.

a) *Section 22.*

The original Agricultural Adjustment Act authorized the Secretary of Agriculture to impose duties on imports that competed with domestic agricultural commodities which were subject to a processing tax.⁵⁶ In 1935 Congress did not consider this provision adequate to protect the two-price system and in August Section 22 of the original Agricultural Adjustment Act was amended. This section now provided, in part, that:

“Whenever... any one or more articles are being imported into the United States under such conditions and in sufficient quantities as to render or tend to render ineffective or materially interfere with any program or operation undertaken, or to reduce substantially the amount of any product processed in the United States from any commodity subject to and with respect to which an adjustment program is in operation, under this title... (and if) the President finds the existence of such facts, he shall by proclamation impose such limitations on the total quantities of any article or articles which may be imported as he finds and declares... to be necessary... (provided that) no limitation shall be imposed on the total quantity of any articles which may be imported from any country which reduces such permissible total quantity to less than 50 per centum of the average annual quantity of such article which was imported from such country during the period from July 1, 1928, to June 30, 1933...”⁵⁷

Since 1935 Section 22 has been amended several times. The section now provides that whenever:

“... the President finds the existence of such facts, he shall by proclamation impose such fees not in excess of 50 per centum ad valorem or such quantitative limitations on any article or articles which may be entered... as he finds and declares... to be necessary... (provided that) no proclamation under this section shall impose any limitation on the total quantity of any article or articles

⁵⁵ *America Must Choose*, p. 19.

⁵⁶ See above, p. 69.

⁵⁷ *U.S. Statutes at Large*, Vol. 49, Part I, 1936, pp. 773-774.

which may be entered . . . which reduces such permissible total quantity to proportionately less than 50 per centum of the total quantity of such article or articles which was entered . . . during a representative period as determined by the President. . .”⁵⁸

As of February 1954, twenty one Section 22 investigations had been undertaken. Import quotas were authorized under Section 22 for millable wheat and wheat products in 1939. Prior to 1955, imports of butter, milk products, cheese, oats, barley, rye, rye flour, peanuts, wheat, wheat flour, cotton and cotton waste were restricted by quota under Section 22, and imports of filberts, almonds, flaxseed, linseed oil and peanut oil in excess of specified quantities were restricted by import fees. Wheat, wheat flour, cotton, and cotton waste imports were allocated by country, in direct conflict with the “equal treatment” concept the United States professes to espouse in its foreign trade policy.⁵⁹ The Department of Agriculture has administered an import licence system for butter and apples and various other agricultural commodities. This action has been authorized, at least by interference, by Section 22.

Since controls authorized under Section 22 may be imposed, modified or withdrawn at any time, foreign producers and exporters of agricultural products which qualify for Section 22 action are kept in constant uncertainty as to the possibility of sales in the United States market. This uncertainty is intensified by the fact that now the law does not specify, nor is there an established practice, as to the base period to be used for determining quotas. Section 22 is thus equivalent to a special “escape clause” for agricultural products. Under such conditions international trade is further restricted since foreign exporters do not feel justified to make big investments to establish distributive channels and to advertise to establish consumer preferences in the United States.

b) *Section 32.*

The original Agricultural Adjustment Act authorized export subsidies.⁶⁰ In 1935, however, Congress decided that a much more specific provision was needed. Consequently, in August of that year, the original Act was amended by Section 32. This Section authorized the Secretary of Agriculture to use up to 30 per cent of the gross custom receipts of the United States to increase domestic demand

⁵⁸ *U.S. Code*, Supplement III, 1956, Title 7, Sec. 624.

⁵⁹ The long-staple cotton imported from Egypt and the harsh cotton imported from India and Pakistan are not competitive with most United States cotton.

⁶⁰ See above, p. 69.

and to encourage exports of any farm commodities "...by the payment of benefits ... or of indemnities for losses incurred in connection with such exportation..."⁶¹

President Roosevelt realized the effect that the export subsidy provision of this Section would have upon international trade in particular and international good will in general, and in his January 1936 budget message to Congress he recommended that Section 32 be repealed. When Congress refused to repeal it the Administration made no further objection but used the export subsidy authority granted by the Section as sparingly as possible. The Department of Agriculture followed these principles in its export subsidy actions: 1. Export subsidies should be used only in emergencies; 2. Export subsidies should not be used for previously non-exported agricultural commodities; 3. For regularly exported commodities, export subsidies should not be used to gain more than a fair share of the foreign market.⁶² The Department remained loyal to these principles but still allocated \$ 118 million between 1933 and 1944 to subsidize wheat, cotton, corn, tobacco, fruits, tree nuts and dairy and meat products.⁶³ Much more than this could have been allocated. For example, during the first year that Section 32 was in effect, only one million dollars of the \$ 90 million available was used to subsidize exports.⁶⁴ Starting in 1936 subsidies were used for flour exports from three Pacific Northwest states to the Phillippines. More general subsidization of wheat and wheat flour exports started in 1938. Subsidies for cotton exports started in 1939. Even if export subsidies had never been used, the very fact that they have legislative authorization would alone handicap the trade liberalization movement which the United States is championing.

Section 32 broadens the support within United States agriculture for protectionism. Without export subsidies, producers of export crops have no reason to support protectionism. Now that export subsidies have extended the possibility of protection to export commodities, it is possible for all of agriculture to gain a vested interest from protectionism. The conflict between United States agricultural policy and the trade liberalization movement that had been born in 1934 had, with the advent of Sections 22 and 32, now reached puberty. It was to continue to grow, but the year 1935 definitely marked an important stage in its development.

⁶¹ *U.S. Statutes at Large*, Vol. 49, Part I, 1936, p. 774.

⁶² L.A. Wheeler, "The American Farmer Looks Abroad", *Annals of the American Academy of Political and Social Science*, Vol. 211, September 1940, p. 31.

⁶³ C.A. Hickman, *op. cit.*, p. 50.

⁶⁴ Black, *Parity, Parity, Parity*, p. 306.

c) *Soil Conservation and Domestic Allotment Act and
Agricultural Adjustment Act of 1938.*

A Supreme Court decision in January 1936 invalidated the processing tax, benefit payment and production control provisions of the original Agricultural Adjustment Act on the grounds that they invaded the rights of the states. The decision did not, however, put an end to the agricultural program. Under the Soil Conservation and Domestic Allotment Act of 1936, benefit payments were continued as measures for production control and income support, but they were now financed by direct Congressional appropriations and justified as soil conservation measures. The Act also shifted the parity goal from price equality of agricultural commodities and the articles that farmers buy to income equality of farm and non-farm population. The parity goal was now to reestablish the ratio between the purchasing power of the net income per person on farms from agriculture and that of the income of persons not on farms that prevailed during the 1909-14 period. The effect of the Supreme Court decision and the Soil Conservation and Domestic Allotment Act was to change not at all the conflict of policies.

The Agricultural Adjustment Act of 1938 once again explicitly provided for the encouragement of acreage adjustment of "basic" crops through government payments financed from general appropriations. The Act specifically provided for direct parity payments to producers of corn, wheat, cotton, rice and tobacco equal to the difference between the market price and the "fair exchange value".⁶⁵ Thus, the emphasis was now shifted back to price equality of agricultural commodities and the articles that farmers buy. As Professor John D. Black wrote:

"The congressmen did not want to hear any more nonsense about equalizing incomes — what they wanted was a proper price for their cotton and corn. If they got that, income would take care of itself."⁶⁶

The Agricultural Adjustment Act of 1938 required the AAA to support wheat, corn and cotton prices at from 52 to 75 per cent of parity under specified conditions. The Act also authorized the Commodity Credit Corporation to make "non-recourse" loans on other commodities at from 52 to 75 per cent of parity. This was the first time that Congress had specified the levels at which "non-recourse" loans were to be made. Thus, in 1938, the informal "Farm Bloc"

⁶⁵ Parity payments during the period 1939 to 1942 equalled 967 million dollars.

⁶⁶ *Parity, Parity, Parity*, p. 57.

took over from the Executive Branch of the Federal Government the writing of more of the details of farm policy. Congress had now forgotten that changing conditions of production and consumption make flexibility highly necessary.

Within these limits, loan rates, except for those for corn, were, however, still subject to administrative determination. Loan rates for corn were to be determined by the size of the year's crop. This was the first application of the "sliding-scale" support price. During the period up to 1941, loan rates for cotton and wheat ranged between 52 and 57 per cent of parity, and loan rates for corn ranged between 70 and 75 per cent of parity. "Non-recourse" loans and storage were now to be used to eliminate most of the effects of fluctuations in the yield of farm crops on the supplies available to consumers and prices received by farmers. This was the "ever-normal granary" concept of Henry A. Wallace.

d) *Other Legislation.*

In 1935 interest and tax payments were brought into the parity equation. This was a first step in the direction of income parity. The effect was to increase parity prices by four per cent.⁶⁷ However, since "non-recourse" loans were not legislatively tied to parity prices at this time, the inclusion of interest and tax payments did not directly intensify the conflict between agricultural policy and trade liberalization until a later date. It made still more evident, however, the political influence of agriculture. Ironically, by 1942 the inclusion of interest and tax payments in the parity equation tended to reduce parity prices.⁶⁸ In 1940 the base period for computing parity prices for burley and flue-cured tobacco was shifted from 1919-29 to 1934-39. When production and consumption changes have made the established base period for computing parity prices disadvantageous for certain farm groups, these groups have been quick to demand a change. When production and consumption changes have had the reverse effect, there have been no changes in the base period, and, consequently, called-for adjustments within agriculture have not been made.

The Sugar Act of 1937 replaced the Jones-Costigan Sugar Act of 1934. The Act arbitrarily allocated the entire sugar consumption of the United States between domestic and foreign producers. Imports were regulated by quotas, and domestic production was regulated by subsidies to domestic producers provided that their marketings did not

⁶⁷ Johnson, *Agricultural Price Policy and International Trade*, p. 5.

⁶⁸ *Loc. cit.*

exceed an established quota. Here was a striking example of the influence that a tightly organized commodity group can have in determining commercial policy.

The Agricultural Marketing Act of 1937 broadened and strengthened the provisions of the original Agricultural Adjustment Act authorizing marketing agreements. Marketing agreements have been used to control marketings and to establish multiple-pricing systems. Such marketing agreements, if they are effective in increasing returns to producers, will frequently require strengthening from trade-disrupting devices. For example, export subsidies have been used in conjunction with marketing agreements covering various fruits and nuts. The Act also amended Section 22 to allow the President to impose quotas and duties whenever imports were interfering with a program authorized by the Soil Conservation and Domestic Allotment Act or the Agricultural Marketing Act of 1937 itself.

Section 21 of the Surplus Property Act of 1940 authorized the sale of government-owned surplus agricultural commodities for export at world prices. However, the Second World War was to save the Commodity Credit Corporation from having to assume tremendous losses in disposing of its accumulated inventories.

In June 1940 the exportation of tobacco seeds and plants was prohibited, thus directly adding to the conflict between agricultural policy and trade liberalization.

3. SITUATION AT THE START OF THE 1940's.

In 1940, in his last annual report, Henry A. Wallace admitted that the Roosevelt Administration's production control program had not been completely successful. The fact that it had not been successful had driven the Administration to take actions further intensifying the conflict with the trade liberalization movement. He said:

"We found ourselves driven on the one hand toward crop limitations and on the other toward subsidizing export..."⁶⁹

In the fiscal year 1939-40, 6.5 million bales of cotton and 35.1 million bushels of wheat⁷⁰ were exported with government subsidies.⁷¹ The conflict of policies did not pass unnoticed by other countries.

⁶⁹ U.S. Department of Agriculture, *Report of the Secretary of Agriculture, 1940*, Washington D.C., 1940, pp. 4-5.

⁷⁰ Including cotton goods and flour equivalents.

⁷¹ William Diebold, *New Directions in Our Trade Policy*, New York, 1941, p. 36.

For example, in May 1940 the newspaper *La Prensa* of Buenos Aires said in regard to United States export subsidies:

“President Roosevelt and Secretary of State Hull have more than once strongly censured the same policy when practiced by other nations, considering it one of the fundamental causes now disturbing the world economy.”⁷²

By 1941 the Commodity Credit Corporation had made purchases and “non-recourse” loans of almost three billion dollars.⁷³ At the end of 1941 the Commodity Credit Corporation had \$ 1.4 billion tied up in purchases and outstanding “non-recourse” loans. It had loaned on or owned 477 million bushels of corn, 370 million pounds of tobacco and about 11 million bales of cotton in 1941 and 519 million bushels of wheat in 1942.⁷⁴ As late as February 1941 Dean Acheson, then Assistant Secretary of State, said:

“It is obvious that both short-term and long-term measures for alleviating the surplus situation and minimizing its effects are called for...”⁷⁵

By December 1941, however, due to the increased demand for United States agricultural commodities, brought about by the war, the index of farm prices had risen to 143, and the parity ratio stood at about 100.⁷⁶

D. WORLD WAR II PERIOD

1. STEAGALL AMENDMENT.

In the early war period, surpluses of agricultural commodities continued to grow in the United States because of the war's initial curtailment of exports. Soon, however, surpluses began to disappear, and it became obvious that United States farmers would be called upon to increase their output to meet the increased domestic and foreign demand. Cotton export subsidies were stopped in 1942, and wheat export subsidies were stopped in 1943. During 1942 and 1943, market quotas for cotton and wheat were ended, and penalties were not assessed for marketings exceeding quotas. Farmers who had exceeded acreage allotments were not deprived of program benefits.

⁷² As quoted *loc. cit.*

⁷³ C.A. Hickman, *op. cit.*, p. 13.

⁷⁴ Walter Adams, *The Structure of American Industry*, New York, 1954, p. 36.

⁷⁵ *World Crises and the American Farmer*, U.S. Department of State Commercial Policy Series No. 69, Washington D.C., 1941, p. 5.

⁷⁶ See figure in Appendix.

In addition to many of the factors that had stimulated United States agricultural production during the First World War, a new factor was now present. In March 1941, the Lend-Lease Act was passed by Congress. Under the provisions of the Act, agricultural commodities began to flow from the United States in ever-increasing quantities. By December 31, 1944, just under five billion dollars worth of agricultural commodities had been exported under the program.⁷⁷ Lend-Lease agricultural commodity shipments represented only a small per cent of total United States agricultural production, but they were a very significant factor in increasing demand for some agricultural commodities.

United States farmers remembered what had happened after the First World War and were not willing drastically to expand output with no assurance that prices would not be allowed to drop precipitously after the war. The Administration and Congress were receptive to the farmers' wishes. President Roosevelt said:

"Every farmer remembers what happened to his prices after the last war. We can, I am sure, if we act promptly and wisely, stabilize the farmers economy so that the postwar disaster of 1920 will not overtake him again."⁷⁸

It was generally believed in governmental circles that output restrictions would have to be replaced by production goals and incentives mainly in the form of guaranteed prices extending beyond the end of the war. The whole apparatus of price supports which had developed in a depression period was now to be used in a period of prosperity to encourage greatly increased output.

The 1938 Agricultural Adjustment Act did not provide for mandatory price supports for commodities especially needed for the war effort. The Steagall Amendment was to remedy this situation. It first appeared as Section 4 in an Act extending the Commodity Credit Corporation in July 1941. At this time mandatory price supports for commodities whose expansion had been requested by the Secretary of Agriculture⁷⁹ were fixed at 85 per cent of parity. In October 1942 the Steagall Amendment was revised in the Economic Stabilization Act. The prices of the so-called "Steagall" commodities and wheat, corn, tobacco, rice and peanuts for nuts were now to

⁷⁷ Arthur D. Gayer, "Economic Aspects of Lend-Lease", *The United States in a Multi-National Economy*, Council on Foreign Relations, New York, 1945, p. 126.

⁷⁸ As quoted by C.A. Hickman, *op. cit.*, p. 14.

⁷⁹ Hogs, eggs, chickens, turkeys, milk, butter fat, dry peas, dry beans, soya beans for oil, peanuts for oil, flaxseed, American-Egyptian cotton, potatoes and sweet potatoes.

be supported at 90 per cent of parity. Cotton was to be supported at 92½ per cent of parity. The supports were to continue for two years after the end of the war. The price supports were to be achieved through “non-recourse” loans and direct purchases. The Steagall Amendment empowered the Secretary of Agriculture to extend price supports to other commodities to the extent of available funds and need. The price support program could now encompass all of agriculture, and thus the conflict between agricultural policy and trade liberalization was greatly magnified.

The main purpose of the Steagall Amendment was to free farmers from the fear of a postwar decline in prices of commodities which were required in large quantities for the war effort and thus assure maximum output of needed commodities during the war period. In order to give the farmers time to readjust to peacetime demand conditions, the two year extension of price supports at 90 per cent of parity was possibly justified. However, price supports at 90 per cent of parity did not end two years after the end of the war as will be seen later in this study. Consequently, a farm policy that was tailored to fit an emergency period was to become a permanent policy which was to have far-reaching effects on foreign trade.

2. STEAGALL AMENDMENT TO THE END OF THE WAR.

Acting under the authority granted to him by the Steagall Amendment, the Secretary of Agriculture established price supports for a long list of agricultural commodities during the war. By 1945 price supports were in effect for 166 different agricultural commodities.⁸⁰ High domestic and foreign demand⁸¹ kept market prices generally above price support levels all during the war period, and, consequently, “non-recourse” loans and direct purchases were seldom used.⁸² The support prices achieved their purpose, however, and agricultural output expanded rapidly. Most of the expanded output was achieved by more intensive use of land and by maximum use of tractors and other technical improvements. Acreage under cultivation was expanded very little. However, more intensive methods permitted corn production to rise to 17 per cent above the prewar ten year average and wheat production to rise to 50 per cent above the prewar ten year average.⁸³

⁸⁰ Walter W. Wilcox, *Alternative Policies for American Agriculture*, Public Affairs Bulletin No. 67, Library of Congress, Washington D.C., March 1949, p. 9.

⁸¹ United States gross national product more than doubled during World War II, and consumer spending for agricultural products increased as fast as gross national product. Krooss, *op. cit.*, p. 157.

⁸² A price support program for potatoes, started in 1943, was the most important support program during the war period.

⁸³ Krooss, *loc. cit.*

"Forward prices" for the most urgently needed commodities, such as oil seeds, were announced at planting time.⁸⁴ These "forward prices" were set at a level considered necessary to bring forth the desired output, and they exceeded the 90 per cent of parity called for in the Steagall Amendment. Production goals were also resorted to in order to achieve shifts in the production plans of farmers. Farmers, under the spur of patriotism, responded rather well to these appeals.

Agricultural commodity output did not rise as fast as demand, and farm prices rose sharply in consequence. Between 1940 and 1943 agricultural commodity prices roughly doubled while prices paid by farmers increased only 40 per cent.⁸⁵ The Office of Price Administration (OPA) now came onto the scene to stabilize prices. The Emergency Price Control Act of March 1942, at the informal "Farm Bloc's" insistence and against President Roosevelt's wishes,⁸⁶ contained a clause prohibiting the OPA from imposing a price ceiling on any agricultural commodity at less than 110 per cent of parity. When "forward price" floors exceeded OPA ceilings, as they did in numerous cases, the consumer paid the ceiling price and the Federal Government made up the difference between the two prices by subsidies paid to the distributors or processors. The OPA, with public opinion mobilized behind it, strongly opposed these high returns to farmers, but agriculture was now a political force whose interests were not to be denied. Professor John D. Black wrote at this time as follows:

"The measures finally enacted in 1933 and subsequent revisions no longer satisfy the farm groups, now that industrial wages have risen and the Government has been helping them to rise, and now that industrial profits in war industries have been in a measure guaranteed. Never before have the forces of agriculture been so strongly mobilized in Congress and out. At times recently, it has almost seemed as if the Farm Bloc was riding herd over Congress, the President of the United States, and the people of the nation."⁸⁷

In 1944, the conflict between agricultural policy and the trade liberalization movement broke into the clear again when export subsidies were started for cotton under the authority of the Surplus Property Act of 1940.

⁸⁴ This was the first use of "forward prices". For a discussion of "forward prices", see below, pp. 132-133.

⁸⁵ See figure in Appendix.

⁸⁶ Black, *Parity, Parity, Parity*, p. 11.

⁸⁷ *Ibid.*, p. 4.

Throughout the war period import restrictions were used to facilitate international allocation of scarce agricultural commodities. Imports of butter and a few other commodities were prohibited entirely. However, other agricultural commodities, such as wool and sugar, were imported in greatly increased quantities. As a result, domestic wool output dropped five per cent, and domestic sugar beet production dropped 33 per cent.⁸⁸ These two crops had been at a competitive disadvantage in the United States economy. On the other hand, the domestic output of competing crops increased in some cases by as much as 75 per cent.⁸⁹ This made evident the fact that when a country's economy is expanding, resources displaced by additional imports can, in most cases, be readily transferred to more productive uses.

During the war years, the Reciprocal Trade Agreements Program was practically inoperative. The Republican Party still was not content with the removal of tariff-making from Congress. The 1944 Republican platform included the following passage:

"We will always bear in mind that the domestic market is America's greatest market and that tariffs which protect it against foreign competition should be modified only by reciprocal bilateral trade agreements approved by Congress."⁹⁰

3. SITUATION AT THE END OF THE WAR.

During the war, total United States agricultural production increased roughly one-fifth.⁹¹ The war-created demand for specific commodities was met by a tremendous expansion of output of certain commodities. Food grain output, for example, increased 50 per cent between 1939 and 1946.⁹² With only five per cent more acreage and ten per cent fewer workers, United States agriculture produced roughly 50 per cent more in World War II than in World War I.⁹³ At the end of the war, prices paid to farmers stood at roughly 200 per cent of the prewar level.⁹⁴ Thus, farmers profited from both increased prices and increased output. Cash receipts from farm marketings, which had stood at \$ 7,877,000,000 in 1939, stood at \$ 19,790,000,000

⁸⁸ Theodore W. Schultz, *Production and Welfare of Agriculture*, New York, 1950, p. 215.

⁸⁹ *Loc. cit.*

⁹⁰ As quoted by Isaacs, *op. cit.*, p. 275.

⁹¹ Shepherd, *Agricultural Price Analysis*, p. 24.

⁹² Committee for Economic Development, *Economic Policy for American Agriculture*, January 1956, p. 6.

⁹³ Krooss, *op. cit.*, p. 149.

⁹⁴ See figure in Appendix.

in 1944.⁹⁵ Net income for farm producers increased from \$ 5.3 billion to \$ 13.6 billion during the same period.⁹⁶

In the hearings before the House Committee on Ways and Means on the extension and revision of the Reciprocal Trade Agreements Act in 1945, wool, cattle, sugar, dairy and other special interest group lobbies continued to oppose extension of the Reciprocal Trade Agreements Act.⁹⁷ The general farm groups were by then more moderate in their stand for tariff protection. The Farm Bureau and the Farmers' Union favored extension of the Act, and the Grange took a more moderate stand than its former role as an outright protagonist of a high tariff.⁹⁸ However, the highly protectionist stand of the individual commodity pressure groups was a much more important factor than the more moderate stand of the general farm groups.⁹⁹ When it became evident that the Reciprocal Trade Agreements Act would be extended again, Congressman Pace of Georgia offered an amendment seeking to safeguard the agricultural price-support program.¹⁰⁰ The trade liberalization movement was still being warned not to encroach upon agriculture.

E. 1945-1948

During the war, the War Food Program, jointly administered by the Department of Agriculture and the OPA, had worked toward a "bare shelf" policy which would make possible low inventories at the end of the war. The Federal Government's purchases of agricultural commodities for the armed forces and Lend-Lease were kept as close as possible to the immediate pipeline requirements. This policy was predicated upon the expectation of a severe postwar slump in demand for agricultural commodities. It helped to keep agricultural commodity prices in line during the war, but it greatly accelerated price increases after the war when the expected slump in demand did not materialize.

Instead of the anticipated slump in demand for agricultural commodities after the war, an unprecedented demand developed. The increased demand was the result of tremendous relief and reconstruction shipments in addition to ordinary exports to the rest of the world and an increased domestic demand generated by nearly full

⁹⁵ U.S. Department of Agriculture, *Agricultural Statistics*, 1945, p. 438.

⁹⁶ Harold F. Williamson. (ed.), *The Growth of the American Economy*, New York, 1955, p. 693.

⁹⁷ Hearings before the Committee on Ways and Means, House of Representatives, 79th Congress, First Session, H.R. 3240.

⁹⁸ Theodore W. Schultz, "Which Way Will Farmers Turn", *Foreign Affairs*, Vol. 23, No. 4, July 1945, p. 630.

⁹⁹ See above, p. 38.

¹⁰⁰ See Schultz, *Production and Welfare of Agriculture*, p. 20, footnote 2.

employment and unprecedented income levels. Destruction of agriculture in the war zones was extensive. A severe winter in 1946-47 and a drought in the summer of 1947 in Western Europe added to the demand for UNRRA and United States financed relief and rehabilitation shipments of agricultural commodities from the United States. Wheat acreage, which had stood at 63 million acres in 1939, increased to 72 million acres in 1946 and to 84 million acres by 1949.¹⁰¹ Wheat exports in 1947 and 1948 were almost 500 million bushels each year compared with less than 100 million bushels per year in the late 1930's.¹⁰²

Prices after the war advanced more rapidly than they had during the war. In mid-1946 price controls were removed, and by June 1947 average prices received by farmers were almost 25 per cent higher than in 1946. In 1947 farmers realized \$ 2.29 per bushel for their wheat, more than three times the 1939 price.¹⁰³ In January 1948 the index of agricultural prices reached 307.¹⁰⁴ Between 1938 and 1948, wholesale prices of farm products increased 50 per cent more than did the prices of non-farm products. In 1948 the parity ratio reached 116. From an index of 76¹⁰⁵ in the period 1935-39, United States farm output advanced to 104 in 1948.¹⁰⁶ Professor Theodore W. Schultz colorfully described the farmers' position in 1948 as follows:

"The poor farmer bedeviled by surpluses, depressed and unnaturally radical for so many years: Lo! here he is rich, independent and becoming conservative. Record crops and record prices, large windfall gains from war and inflation and the transfer of billions of dollars from the city consumer to the man on the tractor, have turned the plight of agriculture into an agrarian delight."¹⁰⁷

The price supports at 90 per cent of parity, authorized by the Steagall Amendment, did not come into play to any great extent, therefore, during the immediate postwar period. Only in a few instances, usually involving perishable commodities that could not be readily used for relief shipments where expanded production was especially great, were support measures resorted to. The list of

¹⁰¹ Committee for Economic Development, *loc. cit.*

¹⁰² *Loc. cit.*

¹⁰³ *Loc. cit.*

¹⁰⁴ See figure in Appendix.

¹⁰⁵ 1947-49 = 100.

¹⁰⁶ Hearings before the Subcommittee on Foreign Economic Policy of the Joint Committee on the Economic Report, 84th Congress, First Session, Section 5 (a) of Public Law 304, p. 354.

¹⁰⁷ "Agricultural Price Policy", *Proceedings of the Academy of Political Science*, Vol. XXIII, No. 2, January 1949, p. 108.

commodities included potatoes, eggs, butter, dried milk, wool and turkey.¹⁰⁸ Between 1943 and 1948 the Federal Government lost \$ 270 million on its potato support program alone.¹⁰⁹ This program would have been more costly if Canada had not agreed to place a quota on potatoes exported to the United States. There is no specific legislative authorization for such gentlemen's agreements. They are obviously as restrictive to international trade as import quotas. Presumably countries are forced to resort to export quotas because of the implied threat of another country to resort to import restrictions of some type.¹¹⁰

The sale of surplus stocks acquired by the Commodity Credit Corporation during the 1930's more than offset the cost of its price support program up until 1948. From 1933 to April 1948 the Commodity Credit Corporation showed a net gain of approximately \$ 194,000,000 for its price supporting operations.¹¹¹ These figures do not, however, include the loss to the United States from reduced international trade caused by the United States agricultural policy!

F. SUMMARY AND CONCLUSIONS

As Professor John K. Galbraith wrote in 1954:

"Recent administrations, it is held, have promoted a liberal trade policy with one hand and in the farm policy have laid the foundation for economic nationalism with the other."¹¹²

The Roosevelt Administration attempted to solve the basic problem of excess agricultural production. The production control measures that it initiated failed, however, to improve agriculture's position to any great extent. Other factors were more important in determining conditions in the agricultural segment of the economy. The Administration soon turned to direct price supports and reliance upon import restrictions and export subsidies to protect the domestic market prices of agricultural commodities.

In the 1930's the conflict between the agricultural policy and the trade liberalization movement was obscure since there was not as yet a rigid, comprehensive system of high-level price supports and the trade liberalization movement was advanced only cautiously and

¹⁰⁸ Citrus fruit prices were not supported, and they fell drastically.

¹⁰⁹ C.A. Hickman, *op. cit.*, p. 15.

¹¹⁰ In December 1953 Canada placed export quotas on oats destined for the United States.

¹¹¹ W.W. Wilcox, *op. cit.*, p. 10.

¹¹² "Economic Preconceptions and the Farm Policy", *The American Economic Review*, Vol. XLIV, No. 1, March 1954, p. 43.

tentatively during the middle 1930's and was brought to a standstill in the late 1930's. During and immediately after the Second World War, the United States aggressively took the lead in the fight for freer trade. Early in the war a rigid, comprehensive system of high-level price supports was developed, but up until 1948 agricultural policy did not greatly conflict with the trade liberalization movement because high demand made the price supports inoperative in most cases.

From 1934 to 1936 droughts hit agriculture. Gross farm production fell from 102 per cent of the 1935-39 average in 1932 to 87 per cent in 1936.¹¹³ By 1935, farm prices averaged 66 per cent above 1932. The parity ratio increased until it reached 92 in 1937.¹¹⁴ The general business recession in 1938 hit agriculture once again more severely than the rest of the economy, and the parity ratio fell. The agricultural segment of the economy remained depressed up until World War II. Starting in 1941 and continuing throughout the war and early postwar period agriculture's position in relation to both its previous position and to the rest of the economy improved greatly. By 1948 the index of farm prices reached 307 while the index of industrial prices stood at 265. Thus, in 1948 the parity ratio was 116, the highest level reached since 1918. It was to remain the highest level reached since 1918 since the parity ratio was to fall and never reach this level again.

¹¹³ Krooss, *op. cit.*, p. 157.

¹¹⁴ See figure in Appendix.

II. OPEN CONFLICT

A. INTRODUCTION

In 1948 the demand for United States agricultural commodities fell. Consequently, with the drop in agricultural commodity prices, the price supports established in the early war period became operative in most cases. As the agricultural commodity inventories of the Commodity Credit Corporation increased, the demand for trade-disrupting devices to protect United States agriculture grew in intensity. The Executive and Legislative Branches of the Federal Government were receptive to these demands. Thus, in 1948, the conflict of policies that had been developing since 1934 came dramatically into the spotlight.

The conflict of policies has severe world-wide repercussions because of the central position of the United States in the international agricultural economy. In 1949-50, for example, the United States supplied approximately 39 per cent of the world's wheat exports, 41 per cent of the world's tobacco exports and 49 per cent of the world's cotton exports and took approximately 21 per cent of the world's wool exports and 28 per cent of the world's sugar exports.¹¹⁵

The importance of agricultural commodity exports for the United States economy in particular is just as striking. For example, during 1949-51 the United States exported more than one-third of her wheat, cotton and rice output and approximately 25 per cent of her soybean, tobacco, rye, grain, sorghum, lard, tallow, field pea and hop output.¹¹⁶ In 1952, the United States exported the following proportion of domestic production: wheat, 43 per cent; cotton, 30 per cent; rice, 59 per cent; dried whole milk, 42 per cent; grain sorghums, 30 per cent; soybeans, 16 per cent; rye, 19 per cent; tobacco, 22 per

¹¹⁵ U.S. Government, *Report to the President on Foreign Economic Policies* (Gray Report), Washington D.C., 1950, p. 85.

¹¹⁶ Johnson, *Agricultural Price Policy and International Trade*, p. 3.

cent.¹¹⁷ Obviously, the producers of these agricultural commodities are vitally concerned with United States foreign trade policy, but it does not follow that only the producers of these agricultural commodities are interested in maintaining United States agricultural exports. If exports of these agricultural commodities were curtailed, the land used in producing these exports would be shifted to other agricultural commodities. Allen B. Kline, former President of the Farm Bureau, brought out this fact when he stated in hearings before the Senate Committee on Agriculture and Forestry in April 1953 that:

"If we should have to take out of production the millions of acres now being devoted to production for export, this land undoubtedly would be shifted to the production of other commodities such as dairy products, beef cattle, fruit and vegetables, poultry, and other products. This in turn would create an oversupply of these commodities and endanger price and income of these producers. Thus, the maintenance of a high level of exports is of great importance to all agricultural producers."¹¹⁸

In recent years, United States agricultural commodity exports have accounted for from 25 to 30 per cent of total United States commodity exports.¹¹⁹ For example, in 1951-52 almost one-third of total United States exports consisted of agricultural commodities.¹²⁰ Agriculture's share of total United States exports in 1954 was close to one-fourth.¹²¹ In 1951 United States agricultural exports equalled roughly four billion dollars or nearly one-eighth of total cash farm income and represented the harvests of approximately 55 million acres.¹²² About ten per cent of farm income in 1953 was derived from exports.¹²³

The first section of this part of the study traces the continued growth of the conflict of policies from 1948 to 1956. The second

¹¹⁷ Commission on Foreign Economic Policy (Randall Commission), *Staff Papers*, Washington D.C., 1954, p. 154.

¹¹⁸ Hearings before the Committee on Agriculture and Forestry, Senate, 83rd Congress, First Session, *Exports and Imports of Agricultural Commodities and Their Effect on Farm Price Programs*, p. 83.

¹¹⁹ Johnson, *Agricultural Price Policy and International Trade*, p. 3.

¹²⁰ United States Council of the International Chamber of Commerce, *G.A.T.T. An Analysis and Appraisal of the General Agreement on Tariffs and Trade*, p. 45.

¹²¹ *Loc. cit.*

¹²² Public Advisory Board for Mutual Security, *A Trade and Tariff Policy in the National Interest* (Bell Report), Washington D.C., 1953, p. 2 and B.H. Thibodeaux, *The American Farmer and Foreign Trade*, U.S. Department of State Commercial Policy Series No. 146, Washington D.C., 1955, p. 2.

¹²³ Commission on Foreign Economic Policy, *op. cit.*, p. 374.

section points out the results of the conflict of policies. The third section shows the effect of the conflict upon two attempts at international economic order — the proposed, but now dead, International Trade Organization (ITO) and the GATT, whose administrative arm, the Organization for Trade Cooperation (OCT), is presently awaiting ratification by the Contracting Parties to the GATT before it will come into being.

B. GROWTH OF THE CONFLICT OF POLICIES

1. FARM LEGISLATION.

Price supports under the Steagall Amendment were to expire December 31, 1948. In the absence of new legislation, farm price supports would have reverted to the provisions of the Agricultural Act of 1938. However, the informal "Farm Bloc" did not allow this to happen, and the 80th Congress passed the Agricultural Act of 1948. The Act extended mandatory price supports for many major farm commodities at 90 per cent of parity through 1949. Price supports for wheat, corn, tobacco, cotton, rice, wool, and peanuts were to continue at this level until June 30, 1950, and price supports for dairy products, hogs, chickens and eggs were to continue at this level until January 1, 1950. Potato prices were to be supported at the same level until January 1, 1949, and several other agricultural commodities were to be supported at from 60 to 90 per cent of parity, depending on the state of supply, through 1949. The Act also provided for non-mandatory price supports at from zero to 90 per cent of parity for other agricultural commodities to the extent that funds were available. The Act provided that mandatory supports would be flexible in most cases starting in 1950. Support prices varying from 60 to 90 per cent of parity would be based upon production plus carryover, and these "sliding-scale" support prices were to determine government purchases as well as loans. These "sliding-scale" support prices would not have reduced the conflict of policies so long as they remained above world market prices. It is not the margin between support prices and world prices that creates the conflict, but rather the import quotas and fees and export subsidies needed for maintaining the margin.

The framers of the Act realized that the relative prices which prevailed in the 1910-1914 period and other base periods failed to represent either current production costs or demand and supply relationships. Long-run adjustments in agriculture are forced by technological change, by varying consumer wants, and by the fact

that food consumption grows very slowly as the real incomes of the population rise. For example, mechanization has greatly reduced the cost of producing wheat and other field crops but not animal products, fruits and vegetables. Demand for cereals and potatoes, however, has declined while demand for animal products, fruit and vegetables has increased, owing to the rise of consumer incomes.¹²⁴ The Act specified that parity prices were to be based on actual relative market prices for the ten preceding years. This was a decided improvement which took cognizance of long-run changes in demand and production costs and which aimed at a more rational allocation of resources within agriculture. The changeover to "modernized" parity, however, was to be achieved only gradually. In cases of downward revision of support levels, the adjustment was to be not more than five per cent annually. The Act also included farm wage rates in the calculation of parity prices. Their inclusion boosted parity prices.

The Act specifically reendorsed export subsidies. It directed that Section 32 funds, up to \$ 300 million, remaining at the end of fiscal years be carried over into subsequent years. Prior to this they had reverted to the Treasury. It extended Section 22 authority to allow the imposition of import fees or quotas whenever unrestricted imports interfere with "... any loan, purchase, or other program or operation undertaken by the Department of Agriculture, or any agency operating under its direction ..."¹²⁵ As a result, virtually all major agricultural commodities became subject to possible import controls. The Act also provided for acreage allotments and market quotas, and it authorized the Secretary of Agriculture to make supplementary direct payments in place of maintaining market prices.

Once again, as in 1934 and 1937, sugar quotas were arbitrarily established in the Sugar Act of 1948 in violation of the principle of equal treatment — a cornerstone of United States commercial policy. The Act froze or reduced existing quotas on imports from Cuba and the Philippines as well as on off-shore shipments from Puerto Rico and Hawaii while increasing the quotas of the cane sugar growers of Louisiana and Florida and the beet sugar growers of California and the inter-mountain states.

The Agricultural Act of 1948 was superseded the following year by new legislation. The 1949 Act provided for mandatory flexible support prices at from 75 to 90 per cent of the "modernized" parity

¹²⁴ Since 1910 the per capita consumption of cereals has fallen roughly one-third, the consumption of potatoes has fallen about one-half, and the consumption of fruits and vegetables has increased approximately one-third.

¹²⁵ *U.S. Statutes at Large*, Vol. 62, Part I, 1949, p. 1249.

for the “basic” crops and milk and butterfat and their products and at from 60 to 90 per cent for another group of products. Actually, the existing fixed support prices remained in effect since flexible support prices were delayed when the Korean War began, on the ground that such action was in the interest of national welfare and security.¹²⁶ On July 17, 1952 Congress extended price supports on the six “basic” crops at 90 per cent of parity through 1954-55. Once again Congress had given lip service to the need for flexibility in price supports but had postponed the time of application.

The Secretary of Agriculture was authorized under the Agricultural Act of 1949 to support other products at not in excess of 90 per cent of parity. The Act also stated that the Secretary of Agriculture was no longer authorized to make supplementary direct payments. Section 407 of the Act authorized the Commodity Credit Corporation to dispose of stocks in foreign markets at prices below domestic levels either through commercial channels or to foreign governments and relief organizations. The Act also directed that Section 32 funds be used principally for perishable agricultural commodities not receiving mandatory price supports. Prior to this date, Section 32 funds for export subsidies had been used mostly for cotton and wheat. Thus Section 32 funds were now to be used to extend the base of the conflict of policies even farther.

The “modernized” parity¹²⁷ lowered parity prices for several politically important commodities — namely, corn, cotton, wheat and peanuts. In 1949 Congress legislated, therefore, that from January 1, 1950 to January 1, 1954 the parity price for cotton, wheat, rice, corn, peanuts and tobacco would be the higher of the old or “modernized” parity. On July 17, 1952 Congress further postponed the change to “modernized” parity until January 1, 1956.

2. TRADE LEGISLATION.

Section 22 was amended in the Trade Agreements Extension Act of 1951 to provide that:

“No trade agreement or other international agreement heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirements of this section.”¹²⁸

¹²⁶ The Agricultural Act of 1949 gave the Secretary of Agriculture authority after proper hearings to maintain fixed support prices in order to prevent or alleviate a shortage involving national welfare or defense needs.

¹²⁷ See above, p. 96.

¹²⁸ *U.S. Statutes at Large*, Vol. 65, 1952, p. 75.

The agricultural interests now had it in writing that the domestic farm program was not to be subordinate to any other program.

The Act also included a provision requiring that all reciprocal trade agreements would henceforth include an "escape clause". The Act also stated that an "escape clause" was to be added to all existing trade agreements "as soon as practicable". The "escape clause" stated that no tariff reduction or binding of tariff rates or other concessions:

"...shall be permitted to continue in effect when the product on which the concession has been granted is, as a result, in whole or in part, of the duty or other customs treatment reflecting such concession, being imported into the United States in such increased quantities, either actual or relative, as to cause or threaten serious injury to the domestic industry producing like or directly competitive products."¹²⁹

Agricultural pressure groups were especially instrumental in making the "escape clause" a statutory requirement.

The "escape clause" provision was first included in a treaty with Mexico in 1942. In committee hearings before Congress in 1943 the Roosevelt Administration agreed to include an "escape clause" in all subsequent trade agreements. During the committee hearings before the Senate in 1945 on the renewal of the Trade Agreements Act the Administration stated expressly that it would include an "escape clause" in all future reciprocal trade agreements, but it did not make any announcement of procedures for its implementation. Complaints of injury were dealt with by the Interdepartmental Committee on Trade Agreements. In 1947 there was an increasing desire in Congress to reduce the President's authority under the Trade Agreements Act, and a bill known as the Jenkins Resolution was introduced in the House of Representatives. It would have stopped all action under the Reciprocal Trade Agreements Program until the Tariff Commission completed a special report on the Program. The Bill received the support of the Republican members of the House Ways and Means Committee. At the same time, many Republicans in Congress were urging modification of the Trade Agreements Act. At the insistence of members of Congress and following discussions between Senator Millikin, the late Senator Vandenberg and the then Under Secretaries of State William L. Clayton and Dean Acheson, President Truman stipulated in Executive Order 9832 on February 25, 1947 that all new trade agreements would contain an "escape clause". The order stipulated that the Tariff Commission would decide entirely on its own

¹²⁹ *Ibid.*, p. 73.

whether increased imports “cause or threaten” serious injury. The President could reject the findings of the Tariff Commission, but he was to explain his actions to Congress. This compromise agreement was possible because the senators desiring to reduce the President’s authority under the Reciprocal Trade Agreements Act did not want to precipitate an open break on the tariff issue within the Republican Party. They were also concerned about the effect of an internal tariff debate upon opinion abroad. The Administration shared the concern about a display of domestic disunity on the tariff question just before the United States was to assert its leadership in negotiating the GATT at Geneva.¹³⁰ Pursuant to the policy spelled out in the executive order, an “escape clause” was included in the GATT. In 1950 an “escape clause” was inserted in an earlier bilateral trade agreement with Switzerland. Until the enactment of the Trade Agreements Extension Act of 1951, however, the “escape clause” was not a statutory requirement.

Following the lapse of Section 104 of the 1950 Defense Production Act in 1953, Section 22 was strengthened in the Trade Agreements Extension Act of 1953 to read as follows:

“In any case where the Secretary of Agriculture determines and reports to the President with regard to any article or articles that a condition exists requiring emergency treatment, the President may take immediate action under this section without awaiting the recommendations of the Tariff Commission, such action to continue in effect pending the report and recommendation of the Tariff Commission and action thereon by the President.”¹³¹

Thus, agricultural interest groups now felt that they could depend upon prompt action if their lobbies were sufficiently active and forceful.

3. OTHER LEGISLATION.

Section 112 of the Foreign Assistance Act of 1948 was entitled “Protection of the Domestic Economy”. One provision of this section provided for the disposal of surplus United States agricultural commodities. Countries participating in the Marshall Plan were not

¹³⁰ See below, pp. 112-113. *Congressional Record*, 80th Congress, First Session, Vol. 93, Part I, February 10, 1947, p. 912 and *The New York Times*, February 5, 1947, pp. 1 and 15.

¹³¹ *U.S. Statutes at Large*, Vol. 67, 1953, p. 472.

required to take surplus United States agricultural commodities, but if a participating country requested procurement, requiring the expenditure of Economic Cooperation Administration (ECA) Funds, of an agricultural commodity declared surplus by the Secretary of Agriculture, that agricultural commodity had to be purchased from a United States source unless the United States' supplies were too low or the Secretary of Agriculture authorized procurement elsewhere. The Secretary of Agriculture was authorized to transfer the commodity to the ECA Administrator at prices as low as 50 per cent of the current domestic market price of the product. Surplus agricultural commodities were defined to include any commodity acquired by the Commodity Credit Corporation in the administration of a price-support program and any commodity that would normally be exported. Consequently, the Secretary of Agriculture was in effect authorized to subsidize the export of a large number of agricultural commodities.¹³²

The export subsidy provision of the Act, an act which on the whole reflected the desire of the United States to facilitate freer trade on a multilateral basis, made people wonder as to the extent to which the United States actually adhered to the principles of liberal trade. The export subsidy provision also created a basis for the accusation that the Marshall Plan was to be used solely to bolster the United States economy. As Professor Theodore W. Schultz wrote in 1948:

"There is imminent danger that the European recovery program will become a convenient instrument for dumping... The danger is real, and the adverse effects will be all too significant. The reluctance of Europeans to take the particular farm products that become "surplus" will not stem the tide. Moreover, the procedure will hardly be subject to public scrutiny; it certainly will be less open and above-board than a direct export subsidy. It will be dumping, and it will be concealed.

If the European recovery program is misused in this manner, the main loss will be not in the dumping per se but in the fact that this development will probably postpone the revision of our basic agricultural legislation."¹³³

These fears were only partially justified by subsequent actions. Thanks to the farsighted direction of Paul G. Hoffman, the ECA held

¹³² It should be noted that the Secretary of Agriculture already had the authority to subsidize the export of these commodities under the authority granted to him by the original Agricultural Adjustment Act and by Section 32. See above, pp. 69 and 78-80.

¹³³ "Supporting Agricultural Prices by Concealed Dumping", *The Journal of Political Economy*, Vol. LVI, 1948, pp. 159-160.

the use of export subsidies to a minimum. He did his very best to reject the pleas for the use of ECA funds to "protect" the foreign market for United States agriculture. In September 1948 he said:

"I would be opposed to distorting the historic trade patterns of Europe in favor of American industry... I don't believe that American industry and agriculture are entitled to a subsidy under this program."¹³⁴

It is probable that the provision of the Act which was designed to increase United States agricultural commodity exports did not actually do so, to any great extent. During the period April 1948 to June 1951, the ECA nations¹³⁵ had dollar earnings from exports to the United States of over four billion dollars.¹³⁶ These dollars were not bound by the provisions of the Foreign Assistance Act, and thus, the countries were free to purchase agricultural commodities wherever the prices were lowest. Subsidies authorized under the Act were held to fairly reasonable limits. From 1948 to 1952, less than \$ 75 million of Section 32 funds were used to subsidize agricultural commodity exports within the framework of the Foreign Assistance Program.¹³⁷ Much more could have been spent if the Secretary of Agriculture and Mr. Hoffman had so desired.

Because the informal "Farm Bloc" in Congress apparently thought that the Administration was not using its discretionary powers under Section 22 of the Agricultural Adjustment Act to a sufficient extent, Section 104 was included in the 1950 Defense Production Act. Section 104 left the Administration little room for discretion. No imports of a specified list of products were to be allowed if the Secretary of Agriculture determined that imports would either impair or reduce domestic production below existing levels or such higher levels as might be considered necessary or interfere with the orderly domestic marketing or storing of the commodity or result in any unnecessary burden or expenditure under any government price support program. These mandatory controls caused considerable unfavorable reaction in various other nations, particularly in Western Europe. In 1951 import quotas were placed on cheese, broken rice, rice starch, flaxseed screenings, casein, and on peanuts, rice and

¹³⁴ Remarks to a delegation of Southern senators, members of the House of Representatives and tobacco growers on September 28, 1948, as quoted by C.A. Hickman, *op. cit.*, p. 4.

¹³⁵ Excluding overseas territories.

¹³⁶ D. Gale Johnson, "U.S. Foreign Economic Assistance and the Demand for American Farm Products", *Journal of Farm Economics*, Vol. XXXIV, No. 5, December 1952, p. 664.

¹³⁷ *Loc. cit.*

flaxseed for planting purposes. Imports of butter, flaxseed, linseed oil, non-fat dried milk solids, peanuts, peanut oil and rice were prohibited. In 1952 Section 104 was modified to allow the Secretary of Agriculture to impose import controls by variety and type of a commodity. When taking this action, the Secretary of Agriculture was directed to take into account the broad effects on international relationships and trade! In 1952 quotas were placed on dried whole milk, dried buttermilk, and dried cream.

For the economies of several nations some dairy product exports are significantly important. At the time that the United States took action under Section 104 to limit dairy product imports, imports equalled only one per cent of domestic dairy production.¹³⁸ By this time, however, European agricultural recovery had advanced to a point where foreign markets for various dairy products were being sought by several Western European nations.

Section 104 was a notable example of the ever-present possibility of direct congressional action to restrict imports. On June 30, 1953 Congress allowed Section 104 to lapse,¹³⁹ but only after President Eisenhower agreed to impose essentially the same import restrictions on the affected fats and oils under Section 22 authority, and other Administration personnel assured Congress that the Administration would use the discretionary powers of Section 22 more fully in the future.¹⁴⁰ Furthermore, Congress amended the Reciprocal Trade Agreements Act in 1953 to allow the President to use Section 22 authority immediately without awaiting the Tariff Commission's recommendations.¹⁴¹

Section 550 of the Mutual Security Act of 1953 provided that not less than \$ 100 million and not more than \$ 250 million of the funds appropriated for Mutual Security Administration (MSA) purposes should be used to purchase surplus agricultural commodities in the United States. The President was authorized under the Act to enter into agreements for the sale of such commodities and to receive payment in "soft" currencies. The Mutual Security Act of 1954 provided that not more than an additional \$ 350 million of the funds appropriated for MSA purposes be put to similar use. The Agricultural Trade Development and Assistance Act of 1954 provided that up to \$ 700 million be used over a period of three years to develop foreign markets for agricultural commodity surpluses. This was to be accomplished by reimbursing the Commodity Credit Corporation for

¹³⁸ Public Advisory Board for Mutual Security, *op. cit.*, p. 27.

¹³⁹ See above, p. 15.

¹⁴⁰ Johnson, *Agricultural Price Policy and International Trade*, pp. 9-10.

¹⁴¹ See above, p. 99.

losses on sales of agricultural commodities for "soft" currencies.¹⁴² The Act provided an additional \$ 300 million for famine relief programs abroad. Professor Karl Brandt wrote in regard to such aid and relief programs:

"We can try to give away commodities under various titles of relief or charity... But make no mistake... (receiving nations) all profoundly resent this trap, and eventually they will break out of it, no matter how high the cost. Moreover, the policy of giving away surpluses is not possible on a large scale, because it is the worst sort of dumping and leads to retaliation by those competitors who are hurt by it."¹⁴³

These programs are too small to solve the ever-growing agricultural commodity surplus problem in the United States. However, even in their present limited state, they may prove to be in conflict with the United States objective of establishing patterns of world trade and production that will make unnecessary continued United States aid.

The Internal Revenue Code provides for import excise taxes and processing taxes levied on first processing or domestic sale. This authority has been used to provide additional protection for various agricultural commodities. Under authority granted by the Code, processing taxes have been placed on sugar, palm and palm kernel oil, and coconut oil, and import excise taxes have been placed on sugar, whale oil, fish oil, marine mineral oil, tallow, inedible animal oils, fats and greases, kapok oil, sunflower oil, rapeseed oil, hempseed oil and perilla oil.

C. RESULTS OF THE CONFLICT OF POLICIES

Price support above world prices removes United States agricultural commodities from world markets and prohibits the proper flow of agricultural commodities into consumption. The United States has attempted to maintain its foreign markets and reduce its government-held surpluses by resorting to export subsidies and other special programs at various times. In 1954-55, for example, over 40 per cent of cotton exports could only be moved under special pro-

¹⁴² In March 1955, \$ 700 million was authorized to reimburse the Commodity Credit Corporation during 1955 alone. In mid-1955, \$ 1,500 million was authorized to reimburse the Commodity Credit Corporation during the three year period 1955-57.

¹⁴³ "Long Range Prospects for American Agriculture: International Trade", *Journal of Farm Economics*, Vol. XXXV, No. 5, December 1953, p. 775.

grams, included Export-Import Bank loans.¹⁴⁴ United States prices of cotton are presently ten to 20 per cent above world prices, depending upon the variety,¹⁴⁵ and the Federal Government is selling cotton on world markets.¹⁴⁶ Almost all wheat and flour exports now move only under direct subsidy or under special export programs. The United States has maintained a wheat export subsidy since 1950. The subsidy has averaged about 60 ¢ per bushel during most of this period.¹⁴⁷ In 1954-55 it rose to 75 ¢ per bushel.¹⁴⁸ In fiscal 1955, exports of agricultural commodities sold for foreign currencies totaled \$ 345 million while exports bartered for strategic and other materials totaled \$ 125 million. International Cooperation administration shipments totaled \$ 381 million.¹⁴⁹

Export subsidies have not been limited, however, to commodities receiving price support. At the end of 1952, for example, there were export subsidy programs in effect for honey, oranges and orange products, raisins and grapefruit and grapefruit products. Until 1953 approximately \$ 300 million had been used to subsidize agricultural commodity exports.¹⁵⁰ Since 1945 export subsidy payments have averaged about \$ 25 million per year.¹⁵¹ The Department of Agriculture recognizes the serious problem created by United States export subsidies and has called them "stop gaps".¹⁵² Even though export subsidies have not increased total United States agricultural commodity exports, several of the leading agricultural export nations are very sensitive to United States export subsidies and cry "unfair competition".¹⁵³

Notwithstanding export subsidies, United States exports of agricultural commodities have fallen sharply from the record four billion dollars reached in 1951-52.¹⁵⁴ In the year ending June 30, 1954

¹⁴⁴ U.S. Government, *Economic Report of the President*, (84th Congress, Second Session, House Document No. 280), Washington D.C., 1956, p. 57.

¹⁴⁵ Committee for Economic Development, *op. cit.*, p. 9.

¹⁴⁶ See below, p. 139.

¹⁴⁷ Committee for Economic Development, *op. cit.*, p. 6.

¹⁴⁸ *Loc. cit.*

¹⁴⁹ U.S. Government, *Economic Report of the President*, 1956, p. 58.

¹⁵⁰ Johnson, *Agricultural Price Policy and International Trade*, p. 10.

¹⁵¹ During the period 1949-54 an average of \$ 95.8 million of Section 32 funds were spent each year. Karl A. Fox, "The Contribution of Farm Price Support Programs to General Economic Stability", *Policies to Combat Depression*, National Bureau of Economic Research, Princeton University, 1956, p. 321. These funds, however, were used to increase domestic demand as well as to subsidize exports.

¹⁵² Humphrey, *American Imports*, p. 253.

¹⁵³ The leading exporters of agricultural commodities who are gravely affected by United States export subsidies are Australia, Argentina, New Zealand and Canada.

¹⁵⁴ See above, p. 94.

United States agricultural commodity exports stood at \$ 2.8 billion, a drop of 31 per cent below the previous year.¹⁵⁵ Since then yearly exports of farm products have increased to only slightly over three billion dollars.¹⁵⁶ The foreign markets that the United States has lost have encouraged expanded agricultural production in other areas.

High support prices encourage exports from other areas to the United States. The extent to which the United States has resorted to import controls to prevent imports of agricultural commodities is brought out in other sections of this study.¹⁵⁷ As of November 1956, Section 22 controls were in force for cotton, wheat, some dairy products, flaxseed and linseed oil, peanuts and peanut oil and rye.¹⁵⁸ The controls are quotas except for flaxseed and linseed oil and peanuts and peanut oil which are subject to import fees. Some of the quotas are very strict. For example, only 800,000 bushels of wheat, or less than one-tenth of one per cent of United States production, are allowed each year. Flour imports are limited to four million pounds per year, or about one-fiftieth of one per cent of United States production. The cotton quota allows imports of less than one per cent of United States production. Butter imports are limited to 707,000 pounds per year and rye imports to about 3.3 million bushels per year.¹⁵⁹

In recent years, between 30 and 40 different agricultural commodities have been under price support. The inventories of the Commodity Credit Corporation accumulated during the 1930's and the start of the 1940's were removed during World War II and the early postwar period. In 1948 a booming demand for agricultural commodities was finally matched by increased agricultural production in the rest of the world¹⁶⁰ and maintained close-to-record agricultural production in the United States brought about by favorable weather, guaranteed prices and improved technology. Consequently, farm prices generally fell until the outbreak of hostilities in Korea in 1950. With the minor contraction of the domestic economy in 1948, non-

¹⁵⁵ "United States Agricultural Policy", *Reserve Bank of New Zealand Bulletin*, Vol. 18, No. 2, March 1955, p. 30.

¹⁵⁶ Hearings before the Committee on Ways and Means, House of Representatives, 84th Congress, Second Session, H.R. 5550, p. 180.

¹⁵⁷ See above p. 79. See below, p. 120.

¹⁵⁸ Until September 30, 1955 there were controls on imports of oats, barley and certain tree nuts.

¹⁵⁹ Hearings before the Subcommittee on Foreign Economic Policy of the Joint Committee on the Economic Report, 84th Congress, First Session, Sec. 5 (a) of Public Law 304, p. 348 and Lewis E. Lloyd, *The Case for Protection*. New York, 1955, pp. 55-56.

¹⁶⁰ European nations, through the use of protective measures, greatly increased their agricultural output during the early postwar period.

farm prices also fell but not as much as farm prices.¹⁶¹ Farmers were once again caught in a "cost-price squeeze". The Commodity Credit Corporation began to accumulate surplus stocks. Between June 1948 and February 1950 the Commodity Credit Corporation's inventories and loans outstanding increased about \$ 2.5 billion.¹⁶²

The inflationary forces associated with the Korean War raised the market prices of agricultural commodities above parity, and some commodities moved out of storage, thus reversing the trend toward mounting surpluses which had started again in 1948. In February 1950 the Commodity Credit Corporation had commitments of \$ 4.3 billion.¹⁶³ As of June 30, 1951 the Commodity Credit Corporation held stocks of agricultural commodities and loans outstanding of \$ 1.767 billion.¹⁶⁴ As of June 30, 1952 the figure stood at \$ 1.437 billion.¹⁶⁵ The high agricultural commodity prices of late 1950 and early 1951 were, however, due primarily to stockpiling for fear of wartime shortages, especially by European countries but also in the United States, rather than to any basic changes in supply conditions and consumer demand. Consequently, agricultural commodity exports and prices fell in 1952 and 1953, and surpluses soon began to mount once again.

Since the February 1951 peak, farm prices generally have fallen approximately 25 per cent. During the same period, income to agriculture has declined about one-fifth per farm and per farm worker while non-farm income has continued its strong advance.¹⁶⁶ On September 15, 1956 the parity ratio was 82.

During 1953 one-third of the farm marketings of "basic" crops had to be acquired by the Commodity Credit Corporation. As of June 30, 1953 the Commodity Credit Corporation's total inventories and loans outstanding stood at \$ 3.476 billion.¹⁶⁷ As of September 30, 1953 the Commodity Credit Corporation owned or held as collateral commodities valued at approximately four billion dollars.¹⁶⁸ By November 30, 1953 the figure had jumped to \$ 5.2 billion.¹⁶⁹ By January 1954 the Commodity Credit Corporation had nearly exhausted its

¹⁶¹ See figure in Appendix.

¹⁶² Fox, *op. cit.*, p. 326.

¹⁶³ *Ibid.*, p. 322.

¹⁶⁴ Committee for Economic Development, *op. cit.*, p. 5.

¹⁶⁵ *Loc. cit.*,

¹⁶⁶ Black, "Agriculture in the Nation's Economy", *Amer. Econ. Rev.*, March 1956, p. 33.

¹⁶⁷ Committee for Economic Development, *loc. cit.*

¹⁶⁸ Commission on Foreign Economic Policy, *op. cit.*, p. 159. The inventories consisted chiefly of corn, wheat, cotton and butter.

¹⁶⁹ Karl Brandt, *Farm Price Supports — Rigid or Flexible?*, American Enterprise Association, New York, 1952, p. 5.

\$ 6.75 billion borrowing authority which had been approved by Congress on June 28, 1950, and President Eisenhower asked Congress to increase that authority to \$ 8.5 billion. Congress approved this new limit on March 20, 1954. On June 30, 1954 President Eisenhower was forced to request an additional \$ 1.5 billion. The ten billion dollar limit was approved on August 18, 1954. In August 1954 the Commodity Credit Corporation held 447 million pounds of butter, 428.3 million pounds of cheese and 233,511,000 pounds of dried milk.¹⁷⁰ From mid-1952 to mid-1955 Commodity Credit Corporation inventories and commitments for six "basic" crops rose from \$ 1.2 billion to \$ 6 billion.¹⁷¹ In May 1955 the Commodity Credit Corporation owned or held as collateral commodities valued at nearly \$ 7.5 billion.¹⁷² By November 30, 1955 the Commodity Credit Corporation's inventories and commitments for loans outstanding reached \$ 8.2 billion.¹⁷³ In January 1956 this figure stood at \$ 8.9 billion.¹⁷⁴ Since then this figure has been reduced, but it is likely to rise again as 1956 crops are harvested. The very existence of these huge inventories tends to disrupt foreign trade, since other nations live in constant fear of United States dumping, and therefore constitutes a considerable danger to the world economy.

D. CASE STUDIES OF THE CONFLICT OF POLICIES

1. THE INTERNATIONAL TRADE ORGANIZATION.

The establishment of an international trade organization was first proposed in a resolution introduced in the House of Representatives by Cordell Hull during World War I. In the inter-war period the idea was advanced numerous times. During and after the Second World War, the United States Government espoused the idea of an international trade organization whose charter would bind the member nations to more liberal trading practices and whose members would continually work toward freer trade. The United States spelled out the general principle that such a charter should include in the Atlantic Charter in August 1941, in Article VII of the Master Lend-Lease agreements in 1942, at the Bretton Woods Conference in 1944, and at the San Francisco Conference in 1945. After dis-

¹⁷⁰ United States Council of the International Chamber of Commerce, *GATT An Analysis and Appraisal of the General Agreement on Tariffs and Trade*, p. 57.

¹⁷¹ U.S. Government, *Economic Report of the President*, 1956, p. 55.

¹⁷² *Herald Tribune* (European Edition), May 10, 1955, p. 7.

¹⁷³ U.S. Government, *Economic Report of the President*, 1956, p. 55.

¹⁷⁴ *The New York Times* (International Edition), September 30, 1956, p. 1.

cussions with British and Canadian officials in 1943, 1944 and 1945, the Department of State made public, in December 1945, a series of *Proposals for Expansion of World Trade and Employment*. In September 1946 the Department of State published a more detailed document entitled *Suggested Charter for an International Trade Organization of the United Nations*.

These suggestions served as the starting point for discussions of the Preparatory Committee¹⁷⁵ which was appointed by the Economic and Social Council of the United Nations in February 1946 to draft a charter for the proposed International Trade Organization. The first session of the Preparatory Committee was held in London in October and November of 1946. The Committee drew up a draft of a charter and appointed a Drafting Committee which met in New York in January and February of 1947. The Drafting Committee continued to work on the draft drawn up at the London session. The Preparatory Committee held its second session in Geneva from April to October 1947. At this session the Preparatory Committee drew up the final draft of the charter which was considered by 56 nations at the United Nations Conference on Trade and Employment which opened in Havana, Cuba on November 21, 1947. The charter¹⁷⁶ for the proposed International Trade Organization was finally signed by 53 nations in Havana on March 24, 1948 after more than six years of negotiation by the Department of State.

On April 28, 1949 President Truman presented the Havana Charter to Congress and strongly recommended that it be approved. He commented:

"The Charter is the most comprehensive international economic agreement in history... While it does not include every detail desired by this Nation's representatives, it does provide a practical, realistic method for progressive action toward the goal of expanding world trade."¹⁷⁷

Many economists did not share the President's opinion of the Charter but rather agreed with Philip Cortney when he wrote in 1949 that:

¹⁷⁵ The Preparatory Committee included the United Kingdom, France, China, Canada, Australia, New Zealand, South Africa, India, the Netherlands, Belgium, Luxembourg, Czechoslovakia, Brazil, Cuba, Norway, Chile, Lebanon and the United States. The Soviet Union was appointed but did not attend the sessions of the Committee.

¹⁷⁶ Officially titled *Havana Charter for an International Trade Organization*.

¹⁷⁷ U.S. Government, *Charter for an International Trade Organization, Message From the President of the United States* (81st Congress, First Session, Senate Document No. 61), April 28, 1949, p. 2.

"...the Havana I.T.O. is an international organization for the restriction of international trade and the undermining of the individual competitive system..."¹⁷⁸

In 1950 the Truman Administration decided not to continue to press Congress for approval of the Charter and on December 6, 1950 declared that it would not resubmit the Charter to the Senate for ratification. Other countries have not been disposed to ratify the Charter largely because of this action by the United States.¹⁷⁹ The Charter was thus given, to quote the *Italian Economic Survey*,¹⁸⁰ a "second-class funeral".

Indeed, the Charter's content did not justify ratification. The demands of United States agriculture played a part in destroying the proposed ITO. The Truman Administration realized that if the Charter did not provide for special treatment for agricultural products it would never be approved by Congress. The existing agricultural policy could be continued only if the Charter provided for special treatment for agricultural commodities. The Administration was thus forced to demand that special safeguards for agriculture be included in the Charter. These agricultural exceptions enabled the countries interested in economic development to claim an imbalance in the Charter in favor of agriculture as against industrial protection. The way was then opened for other nations to demand exceptions to the general rules, and United States negotiators were forced to agree to other exceptions desired by other nations in the interest of their national economic programs which, combined with the exceptions the United States demanded, made the Charter anything but the trade liberalizing document that it was meant to be. As Edward D. Wilgress wrote in 1949:

"Inevitably at the trade conferences many nations capitalized gleefully on America's use of Q.R. (quantitative restrictions). Only too often her delegates retreated like red-faced saints before frankly confessed sinners. Since they had partly sacrificed the principle they stood for, they were forced to yield to those who would destroy it completely. Clearly, America thus weakens her position just when she is most anxious for others to follow her lead."¹⁸¹

In the *Proposals for Expansion of World Trade and Employment* and the *Suggested Charter for an International Trade Organization of the United Nations* the United States took the position that quan-

¹⁷⁸ *The Economic Munich*, New York, 1949, p. XI.

¹⁷⁹ Only Australia has ratified the Charter, contingent upon ratification by the United States and the United Kingdom.

¹⁸⁰ "The Torquay Negotiations", January-February 1951, p. 1.

¹⁸¹ *A New Attempt at Internationalism*, Paris, 1949, p. 157.

titative restrictions, export subsidies and discriminatory internal taxes and regulations should be condemned in principle. This was not surprising in view of the United States' long-standing fight against discrimination. However, the United States demanded four exceptions to the general rules of the Charter as prerequisite to her acceptance of the Charter. First, she insisted upon a general "escape clause" allowing suspension or withdrawal of concessions if, as the result of unforeseen developments, increased imports cause or threaten serious injury to domestic producers.¹⁸² This general "escape clause" was importantly related to agricultural commodities. Second, the United States demanded that quantitative restrictions be allowed on imports of agricultural commodities under certain conditions.¹⁸³ Third, she insisted upon the right to subsidize agricultural exports.¹⁸⁴ Fourth, she insisted that measures adopted and agreements entered into for the protection of essential security interests be exempt, in general, from the provisions of the Charter.¹⁸⁵ This exception also was tied to agriculture, at least in the case of wool. The Reciprocal Trade Agreements Act said nothing about "defense" or "security". However, after World War II, "security" was the dominant weapon in the Administration's periodic fight for renewal of the Reciprocal Trade Agreements Act. While the Administration has argued for the Reciprocal Trade Agreements Program on broad security grounds, special interest groups have argued for protection on narrow ones. Unbelievable as it may seem, the defense argument was used by the dairy lobby to justify import restrictions on cheese under the authority of the 1950 Defense Production Act.¹⁸⁶ It is, therefore, not impossible that other segments of agriculture might resort to this escape! Even in the case of wool the defense argument is weak. The proponents of the defense argument aver that in the

¹⁸² "Emergency Action on Imports of Particular Products

1. (a) If, as a result of unforeseen developments and of the effect of the obligations incurred by a Member under or pursuant to this Chapter, including tariff concessions, any product is being imported into the territory of that Member in such relatively increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the Member shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession." Article 40, Havana Charter for an International Trade Organization.

¹⁸³ Article 20 of the Havana Charter for an International Trade Organization.

¹⁸⁴ Article 27 of the Havana Charter for an International Trade Organization.

¹⁸⁵ Article 99 of the Havana Charter for an International Trade Organization.

¹⁸⁶ See Raymond Vernon, "Foreign Trade and National Defense", *Foreign Affairs*, Vol. 34, No. 1, October 1955, p. 77.

event of war the supply of imported wool, most of which comes from distant areas, can be cut off. This view is not supported by past experience. Furthermore, substitute synthetic fibers are available today, the supply of which can be rapidly increased in an emergency.

The Charter permitted the use of quantitative restrictions for agricultural commodities where required to supplement domestic production and marketing controls and surplus disposal programs which remove a temporary surplus by making the surplus available to certain groups of domestic consumers free of charge or at prices below the current market level if such quotas did not reduce the share of imports in the domestic market.¹⁸⁷ Advance notice had to be given to the ITO and other members of the quantities that could be imported. All members of the ITO were to have been given a chance to voice a complaint if they felt that the cut in imports was deeper than the foregoing requirement would have permitted. The decision in such case was to have been made, however, by the country imposing the import quota. Prior approval of the ITO was not required.

The United States, during the negotiations of the Charter, attempted to justify the agricultural exception to the general ban on quantitative restrictions on the grounds that what was sought was not agricultural protection, but a safeguard against imports that might upset restrictions on domestic production or programs for the disposal of surpluses. William A. Brown points out that this argument is not easily defended since it raises the question of good faith.¹⁸⁸ As he states, United States cotton, sugar and wheat quotas are protective in effect. Nominal domestic restrictions on production have been and could be used in the future to justify quotas whose main effect is outright protection. During the negotiations of this section of the Charter the United States argued that its sugar quotas did not violate the provisions of the agricultural exception to the general ban on quantitative restrictions since limitations were imposed on domestic production. The *de facto* limitation, however, was not very substantial, and other sugar producing nations were able to put the United States on the defensive.

Two attempts were made to broaden the agricultural exception to the general ban on quantitative restrictions. China wanted to extend the exception to include manufactured goods. China, India

¹⁸⁷ i.e. imports and sales of the domestic product had to be restricted proportionately.

¹⁸⁸ See *The United States and the Restoration of World Trade*, Washington D.C., 1950, pp. 345-346.

and the Netherlands argued for the use of quantitative restrictions to enforce domestic price stabilization measures.

At the Havana Conference the United States wanted to exempt entirely export subsidies on agricultural commodities from the limitations the Charter placed on the use of export subsidies. The United States was forced, however, to accept certain limitations on the use of export subsidies on agricultural commodities. The Charter provided that members who were paying export subsidies on agricultural commodities had to cooperate in negotiations of commodity agreements. While negotiations were in progress members could not increase their subsidies. If the negotiations did not succeed or promise to succeed, or if a commodity agreement was not thought to be appropriate, the member could then, if it considered that its interests were seriously prejudiced, resort to export subsidies provided the export subsidies did not increase its share of the world market relative to a past representative period.

In discussing the Charter with reference to export subsidies, Clair Wilcox, vice chairman of the United States delegation at Havana, wrote in 1949:

“Here, as elsewhere, the *Charter* accommodates itself to American agricultural policy. On this score, at least, it will be rejected by economic purists and accepted by political realists.”¹⁸⁹

As evidence of the extent to which the Charter accommodated itself to United States agricultural policy, both the Farm Bureau Federation and the Farmers' Union were able to unite their diverse internal elements and to give their backing to the Charter.

2. THE GENERAL AGREEMENT ON TARIFFS AND TRADE.

The United States and 22 other nations concluded the General Agreement on Tariffs and Trade in Geneva on October 30, 1947.¹⁹⁰ It came into force on January 1, 1948. United States participation was based upon Presidential authority granted under the Reciprocal Trade Agreements Act and upon the President's more general powers to conduct foreign affairs. The initiative for the GATT negotiations came from the Department of State.

While the charter for the proposed ITO was being worked out, the governments that formed the Preparatory Committee¹⁹¹ agreed to sponsor negotiations aimed at lowering tariffs and reducing other

¹⁸⁹ *A Charter for World Trade*, New York, 1949, p. 130.

¹⁹⁰ Since then 12 new parties have been added.

¹⁹¹ See above, p. 108, footnote 175.

restrictions to trade among themselves without waiting for the ITO to come into being. The GATT was negotiated during the latter part of the second session of the Preparatory Committee which was held at Geneva from April to October 1947.¹⁹² The Committee completed its work on the charter for the proposed ITO on August 22, 1947. The governments which formed the Committee and Syria, Pakistan, Burma, Ceylon and Southern Rhodesia¹⁹³ then concluded bilateral tariff negotiations. The concessions thus obtained were generalized to every member of the group. The tariff concessions were safeguarded by general provisions designed to prevent other forms of restrictions or discrimination. These general provisions of the GATT were to be accepted provisionally and superseded by the ITO when it came into force. Thus, the GATT was provisional in nature. However, with the failure of the ITO, it became the sole instrument which laid down rules of conduct for trade on a world-wide basis.

During the negotiations of the GATT, the informal "Farm Bloc" in Congress, however, was not at all happy with the action the Executive Branch of the Federal Government was taking, and it did its best to torpedo the negotiations. The "Farm Bloc" was partially placated early in the negotiations by President Truman's executive order stipulating that an "escape clause" was to be included in all future reciprocal trade agreements.¹⁹⁴ Before the negotiations were completed, however, the "Farm Bloc" was heard from once again when Congress passed the Wool Bill of 1947. In its original form, the bill called for increased tariffs or import quotas on wool. The then Under Secretary of State William L. Clayton had flown back to Washington from Geneva to explain to Congress that the bill would destroy the negotiations then going on in Geneva since the adherence of the United Kingdom, New Zealand, Australia and South Africa to the GATT was conditional upon a reduction in the United States tariff on raw wool and since, in addition, the bill would cast grave doubt upon the integrity of United States trade policy. If Congress increased the import duties or placed import quotas on wool, a commodity already heavily protected by import duties, the other nations at Geneva would question the authority of the United States representatives at the GATT negotiations. Congress had not listened to Mr. Clayton and only President Truman's veto saved the Geneva

¹⁹² See above, p. 108.

¹⁹³ Syria was included as a member of a customs union with Lebanon. Burma, Ceylon and Southern Rhodesia were included as autonomous customs territories within the British Commonwealth.

¹⁹⁴ See above, p. 98.

negotiations. As President Truman pointed out in his veto message to Congress:

"The enactment of a law providing for additional barriers... at the very moment this Government is taking the leading part in a United Nations Conference at Geneva for the purpose of reducing trade barriers... would be a tragic mistake... it would be interpreted around the world as a first step to economic isolationism."¹⁹⁵

The passage of the Wool Bill of 1947 over the Department of State's opposition was a clear case of "logrolling" between specific agricultural commodity groups. Representative Pace of Georgia, a spokesman for the informal "Farm Bloc", attempted to justify his voting record. He said:

"... so far as I know, there is not a sheep living in the Third Congressional District of Georgia. I have utterly no concern directly in the personal welfare of any constituent who is a producer of wool. But... I do not feel I have any right to ask Congress to do any more for the cotton producer, for the tobacco producer, for the peanut producer, for the producers of those other commodities which are peculiar to my section, than the wool producers have to ask the Congress to do for the producers of wool and other commodities of the great West... agriculture in this nation can survive only if there is no selfishness among the different commodity producers."¹⁹⁶

The Wool Act of 1947, which was passed after President Truman vetoed the original Wool Bill of 1947, provided for support to wool producers other than through increased tariffs or import quotas. Thus the way was cleared for a reduction in the tariff on raw wool imports from 34 ¢ to 25½ ¢ per pound, and the negotiations at Geneva were allowed to proceed. However, the enactment in 1947 of the Sugar Act of 1948¹⁹⁷ once again made the inconsistency of United States policies sufficiently clear to the negotiating nations. This Act did not destroy the negotiations, as the Wool Bill of 1947 would have done, since only the Philippines and Cuba were directly involved. Both the Wool Bill of 1947 and the Sugar Act of 1948 pointed out the strength of relatively small groups of high-cost producers when, through the process of "logrolling", other commodity groups are brought to their support.

The GATT, at the insistence of the United States, allows, as did the Havana Charter,¹⁹⁸ quantitatives restrictions to aid agricultural

¹⁹⁵ As quoted by C.A. Hickman, *op. cit.*, p. 2.

¹⁹⁶ *Congressional Record*, 80th Congress, First Session, Vol. 93, Part 5, May 22, 1947, p. 5695.

¹⁹⁷ See above, p. 96.

¹⁹⁸ See above, pp. 110-111.

price-support programs if production or marketing is restricted or if there is a program of non-commercial distribution of surpluses.¹⁹⁹ The GATT does not approve the use of quantitative restrictions for agricultural price support programs employing neither restricts on production or marketing nor non-commercial distribution. However, an exception was made to this rule to accommodate the United States.²⁰⁰ As was also the case in the Havana Charter,²⁰¹ the GATT contains a general "escape clause"²⁰² and security exceptions.²⁰³ The GATT does not specifically permit export subsidies for agricultural commodities, as did the Havana Charter,²⁰⁴ but these are sanctioned under the general authorization of subsidies.²⁰⁵

During the GATT tariff negotiations in Geneva in 1947, as at the other GATT tariff negotiations since then, the United States negotiators were forced to move with extreme caution in reducing tariffs on agricultural commodities. Even though protected by the general "escape clause", agricultural interests would not allow significant tariff reductions except in the case of raw wool which was now supported by other means. The most important tariff reductions on agricultural commodities were as follows: beef and veal from six cents to three cents per pound; sugar from 75 ¢ to 50 ¢ per 100 pounds; butter from 14 ¢ to seven cents per pound;²⁰⁶ wheat from 42 ¢ to 21 ¢ per bushel.²⁰⁷ These tariff reductions and other tariff reductions on less important agricultural commodities were not significant, however, since the existing rates were well padded and since quotas limited imports of commodities on an import basis. For example, wheat imports were limited to 800,000 bushels per year. This amounts to 8/100 of one per cent of United States output.²⁰⁸ Quotas also restricted imports of sugar, cattle, milk, cream, potatoes and fresh vegetables.

The conflict of policies has forced the Executive Branch of the Federal Government continually to fend off foreign complaints with

¹⁹⁹ Article XI of the General Agreement on Tariffs and Trade. See above, pp. 15-16.

²⁰⁰ See above, p. 17, for the waiver that was granted to the United States by the Contracting Parties to the GATT on March 5, 1955 in order to accommodate all the cases of import restrictions permitted under Section 22.

²⁰¹ See above, p. 110.

²⁰² Article XIX of the General Agreement on Tariffs and Trade. It is essentially the same as the "escape clause" in the Havana Charter.

²⁰³ Article XXI of the General Agreement on Tariffs and Trade.

²⁰⁴ See above, pp. 110 and 112.

²⁰⁵ Article XVI of the General Agreement on Tariffs and Trade.

²⁰⁶ Between November 1 and March 31 only and not to exceed 50 million pounds.

²⁰⁷ C.A. Hickman, *op. cit.*, pp. 56-57.

²⁰⁸ *Ibid.*, p. 57.

one hand and to seek to persuade Congress to give it freedom of action with the other. At each Session of the Contracting Parties to the GATT the United States delegation has been on the defensive when other countries have criticized the United States' actions in the agricultural segment and have themselves taken retaliatory action.

At the Seventh Session of the Contracting Parties Greece pointed out that the United States had, since 1949, subsidized the exports of sultana raisins. As a result, Greece, a country with few exportable items, claimed she was losing traditional markets for her sultanas. Turkey also stressed the detrimental effect of the United States' export subsidy on other exporting nations.²⁰⁹ At the Eighth Session of the Contracting Parties the Contracting Parties heard complaints by Italy and the Union of South Africa concerning the effects of the United States' export subsidy on sultanas.²¹⁰ In October 1953 Turkey announced an export subsidy on sultanas equal to the United States' subsidy. *The New York Times* wrote in regard to Turkey's action:

"... taxpayers in both countries will be paying for a subsidy that, because one cancels out the other as a competitive factor, does not help the producers in either country.

Several delegates (at the Eighth Session of the Contracting Parties) expressed their hope, but without much conviction, that this example of mutual frustration would dampen the enthusiasm in agricultural circles everywhere for protective devices seeking to benefit the high-cost producer at the expense of the volume of international trade."²¹¹

In August 1952 the United States, under the "escape clause" procedure, increased the import duty on dried figs from 2½ ¢ the rate established at the 1951 GATT tariff negotiations at Torquay, England, in an agreement with Turkey, to 4½ ¢ per pound.²¹² At the Seventh Session of the Contracting Parties Greece, supported by Italy and Turkey, drew attention to the effect of this action upon their export trade.²¹³ Turkey retaliated by increasing tariffs on certain imports from the United States.

²⁰⁹ Press Release ITO/289, *Background Notes on the Eighth Session of the Contracting Parties to the General Agreement on Tariffs and Trade*, Department of Public Information, Press and Publications Bureau, United Nations, 29 September, 1953, p. 9.

²¹⁰ Press Release ITO/290, *GATT Parties Authorize Netherlands to Continue Retaliatory Restrictions on United States Imports*, Department of Public Information, Press and Publications Bureau, United Nations, 6 October, 1953, p. 2.

²¹¹ October 3, 1953, p. 8.

²¹² Press Release GATT/224, p. 7.

²¹³ Press Release ITO/289, p. 8.

Italy requested consideration of the United States export subsidy on oranges at the Eighth Session of the Contracting Parties.²¹⁴ At this Session Italy alleged that the export subsidy had a serious effect on her exports of oranges to various countries, especially European countries. The Union of South Africa claimed that the United States export subsidy was creating difficulties in marketing South African oranges in Europe. The United Kingdom, speaking for Cyprus and the British West Indies, also voiced a complaint.²¹⁵ At the Ninth Session of the Contracting Parties Greece, Australia and various South American countries joined the complaining nations, and Italy repeated her complaint of the previous year.²¹⁶

At the Eight Session of the Contracting Parties Turkey objected to the import restrictions the United States placed on filberts on June 10, 1953.²¹⁷ At the same Session Italy pointed out the effect on Italian exports to various European markets of the United States export subsidy on almonds.²¹⁸

At the Sixth Session of the Contracting Parties Willard Thorp, who was Assistant Secretary of State for Economic Affairs and chairman of the United States delegation, told the Contracting Parties that the import restrictions on dairy products, which came into effect on August 9, 1951 and were authorized under Section 104 of the 1950 Defense Production Act,²¹⁹ should not be interpreted as indicating a basic change in United States commercial policy. He stated that the Executive Branch of the Federal Government was doing its best to have the legislation repealed.²²⁰ When, in October 1952, the United States was still restricting imports of dairy products under Section 104 of the 1950 Defense Production Act, the Netherlands, New Zealand, Denmark, Canada, Italy, Cuba, Australia, United Kingdom, India, Pakistan, Czechoslovakia and the Union of South Africa criticized the United States, and the Contracting Parties agreed that the United States, by not repealing Section 104, was still viola-

²¹⁴ *Ibid.*, p. 9.

²¹⁵ Press Release ITO/312, *Guidance for Press Correspondents on the Agenda of the Ninth Session of the Contracting Parties to the General Agreement on Tariffs and Trade*, Department of Public Information, Press and Publications Bureau, United Nations, 18 November, 1954, p. 7.

²¹⁶ Press Release ITO/311, *Trade Ministers Begin Study of Possible Changes in GATT*, Department of Public Information, Press and Publications Bureau, United Nations, 8 November, 1954.

²¹⁷ Press Release ITO/289, p. 8.

²¹⁸ *Ibid.*, p. 9.

²¹⁹ See above, p. 101.

²²⁰ Press Release ITO/231, *Contracting Parties to Trade Agreement Reach Major Agenda Items in Second Week of Sixth Session*, Department of Public Information, Press and Information Bureau, United Nations, 1 October, 1951, p. 1.

ting the GATT.²²¹ When, at the Eighth Session of the Contracting Parties, Section 104 had been allowed to lapse²²² and import restrictions had been placed on dairy products under the authority of Section 22 of the Agricultural Adjustment Act,²²³ New Zealand, Denmark, Canada, the Netherlands, Sweden, Italy and France agreed that the import restrictions imposed under Section 22 authority were not materially different from the former import restrictions imposed under Section 104 authority.²²⁴ At the Ninth Session of the Contracting Parties New Zealand said that United States import restrictions on dairy products create an unfavorable impression towards the GATT in the minds of people who regard such restrictions as limiting the value placed on the GATT.²²⁵ At the Tenth Session of the Contracting Parties Canada expressed disappointment that United States import quotas on butter, cheese and dried milk products had remained the same for three years.²²⁶ Italy expressed regret that the United States had not reduced her restrictions on cheese imports.²²⁷ At the Eleventh Session of the Contracting Parties Denmark, New Zealand, Australia and the Netherlands complained that the United States had made no progress in relaxing import restrictions on dairy products.²²⁸

At the Ninth Session of the Contracting Parties A.F.W. Plumptre, Director of the International Relations Division of the Canadian Department of Finance, said:

“Tariff concessions which we obtained from the United States on these agricultural products during the GATT negotiations, have been impaired. In those negotiations Canada gave as good as it got;

²²¹ Press Release ITO/266, *United States Import Restrictions on Dairy Products Criticized at GATT Session*, Department of Public Information, Press and Publications Bureau, United Nations, 28 October, 1952. The Contracting Parties had stated at the previous Session that this action of the United States violated the GATT. See above, p. 13.

²²² See above, p. 102.

²²³ These import restrictions went into effect on July 1, 1953.

²²⁴ Press Release ITO/290, p. 1.

²²⁵ Press Release GATT/172, *United States Restrictions on Dairy Products*, Information Center European Office of the United Nations, 6 November, 1954, p. 4.

²²⁶ Press Release GATT/258, *First Annual Report by the United States Government on the Waiver Granted on 5 March in Connection with the Agricultural Adjustment Act: Discussion in Plenary Session*, Information Center European Office of the United Nations, 28 November, 1955, p. 2.

²²⁷ *Ibid.*, p. 3.

²²⁸ Press Release GATT/317, *Second Annual Report by the United States Government on the Waiver Granted on 5 March 1955 in Connection with the Agricultural Adjustment Act: Discussion in Plenary Session*, Information Center European Office of the United Nations, 1 November, 1956, pp. 2-4.

and the bargain is now thrown out of balance. It is unbalanced not merely because the United States Government has reduced our exports in certain fields, but also and more important, because the threat of such reduction hangs over the whole field of our agricultural exports to their country.”²²⁹

Similarly, at the Eleventh Session of the Contracting Parties Denmark said that import restrictions which the United States had placed on agricultural commodities under Section 22 prevented Denmark from enjoying some of her rights under the GATT and the tariff agreements she had concluded with the United States.²³⁰

At the Tenth Session of the Contracting Parties Canada and the Netherlands expressed their dissatisfaction with the United States' progress in attempting to reduce the conflict between the import restrictions imposed under Section 22 and the rules of the GATT.²³¹ At the Eleventh Session of the Contracting Parties Denmark, Canada and Australia expressed their dissatisfaction on this same matter.²³²

At the Eleventh Session of the Contracting Parties the problem of government-held inventories of agricultural commodities in the United States was discussed. Denmark said that these inventories constituted a permanent threat to normal marketing of her agricultural commodities.²³³ New Zealand pointed out that her trade and economic security were threatened by the existence of these inventories and the disposal of some of them overseas at concessional prices.²³⁴ Australia expressed concern about the effect of the United States disposal programs on normal channels of trade.²³⁵ The Netherlands said that many of the export incentives used by the United States did not fully comply with the philosophy of the GATT and could interfere with the interests of other Contracting Parties.²³⁶

At the Eleventh Session of the Contracting Parties Canada said that the existence of the waiver granted to the United States²³⁷ had a seriously damaging effect on the GATT and on international trade.²³⁸ The Union of South Africa pointed out that events appeared

²²⁹ Press Release GATT/187, *Speech by Mr. A.F.W. Plumptre (Canada) Delivered in Plenary Session on 9 November 1954*, Information Center European Office of the United Nations, 12 November, 1954, p. 6.

²³⁰ Press Release GATT/317, p. 2.

²³¹ Press Release GATT/258, pp. 2-3.

²³² Press Release GATT/317, pp. 2-4.

²³³ *Ibid.*, p. 2.

²³⁴ *Ibid.*, p. 3.

²³⁵ *Ibid.*, p. 4.

²³⁶ *Loc. cit.*

²³⁷ See above, p. 17.

²³⁸ Press Release GATT/317, p. 3.

to justify her fears when the waiver was granted to the United States.²³⁹

The difficulty that the United States has had in attempting not to violate GATT rules arises largely from the pressures exerted by a relatively small segment of agriculture which is not on an export basis.²⁴⁰ The Eisenhower Administration seems to have so interpreted Section 22 that the Administration is left no room for discretion and action under Section 22 is mandatory whenever imports of agricultural commodities interfere with "... any loan, purchase, or other program or operation undertaken by the Department of Agriculture, or any agency operating under its direction...".²⁴¹ Consequently, quantitative restrictions have been placed on agricultural commodities which are not subject to corresponding restrictions on domestic production or marketing or which are not involved in a non-commercial distribution program as required under GATT rules. As of February 1955 import restrictions²⁴² under Section 22 were being applied without corresponding restrictions on domestic production or marketing on dairy products, flaxseed and linseed oil, oats, rye, rye flour, rye meal and barley,²⁴³ none of which were involved in a non-commercial distribution program.

The United States, as the world's leading trading nation, is the most important member of the GATT. Consequently, her actions, or lack of action, will make or break the GATT. As long as the United States maintains her present agricultural policy she can never give the GATT the positive leadership that it must have. If the GATT is to live and become stronger, alternative means of obtaining the desired objective of United States agriculture must be put into effect.

²³⁹ *Ibid.*, p. 4.

²⁴⁰ See table in Appendix.

²⁴¹ *U.S. Statutes at Large*, Vol. 62, Part 1, 1949, p. 1249.

²⁴² Not all of these import restrictions were quantitative restrictions.

²⁴³ The dairy products were: butter; dried whole milk; dried butter-milk; dried cream; dried skimmed milk; malted milk, and compounds or mixtures of or substitutes for milk and cream; cheddar cheese, and cheese and substitutes for cheese containing, or processed from, cheddar cheese; edam and gouda cheese, blue-mold cheese (except stilton), and cheese and substitutes for cheese containing or processed from blue-mold cheese; Italian-type cheese, made from cow's milk, in original loaves (Romano made from cow's milk, Reggiana, Parmesano, Provoloni, Provolette, and Sbrinz). As of February 1955 import restrictions under Section 22 accompanied by restrictions on domestic production were being applied on peanuts and peanut oil; wheat and wheat products; cotton and cotton waste; almonds and filberts.

E. SUMMARY AND CONCLUSIONS

In 1948 the fears of United States farmers that agricultural commodity prices would fall faster and farther than the prices of other goods following the cessation of the war and immediate postwar demand, as was the case in 1921, finally became a reality. The parity ratio dropped from 115 in 1947 to 100 in 1949.²⁴⁴ Congress and the Executive Branch of the Federal Government immediately took steps to increase the protection afforded the agricultural segment of the economy. The trade liberalization movement was compromised wherever the protection of agriculture seemed to demand it.

The period of falling prices in the agricultural segment of the economy was, however, brief as the Korean War once again placed United States agriculture in a favorable position. By 1951 the index of prices received by farmers stood at 302 and the parity ratio stood at 107.

This period of agricultural prosperity was also short-lived. Agricultural commodity prices soon began to fall, and the Executive and Legislative Branches of the Federal Government took concerted action to improve agriculture's position. Since the 1951 peak, agricultural commodity prices have fallen approximately one-fourth, and United States farmers are once again caught in a "cost-price squeeze". On September 15, 1956 the parity ratio stood at 82. The demand for special treatment for the agricultural segment of the United States economy is, consequently, very great today.

The size of the present government-held inventories of agricultural commodities and the extent to which the United States has resorted to production controls, export subsidies and import controls in the agricultural segment of the economy makes clear the magnitude of the conflict between the agricultural and foreign trade policies. The effect that the conflict of policies has had upon the International Trade Organization and the General Agreement on Tariffs and Trade points out clearly the influence that the conflict of policies has had upon the world economy.

²⁴⁴ See figure in Appendix.

PART 3

POSSIBLE SOLUTIONS

A. INTRODUCTION

Clarence B. Randall wrote, shortly after having headed the Commission on Foreign Economic Policy, as follows:

"There can be no escape from the conclusion that our domestic farm policies and our foreign trade policies must be reconciled. A pattern of policies and procedures must be found which will permit the achievements of the objectives so urgently required in both fields of our governmental activity. Development of a new pattern will of course take time, particularly in view of existing accumulations, but the clear delineation of a sound long-term policy must not be long delayed."¹

The conflict between the agricultural policy and the trade liberalization movement in the United States arises not from the objective of the agricultural policy but from the means used to attain it. The extensive use of high-level fixed price supports for agricultural commodities, the means used to attain the objective of the agricultural policy, is not compatible with the United States' position of leadership in the trade liberalization movement. The objective of the agricultural policy of the United States, that of improving economic opportunity for farm people by raising and stabilizing farm income, can, however, be attained by other means not in conflict with the trade liberalization movement.

The first section of this part of the study deals with the possibility of reverting to a completely free market economy with no direct governmental action to increase farm prices or income. The second section analyzes the possibility of substituting direct payments for price supports. Various other possible solutions are analyzed in the last section. No single solution is offered as a remedy to the conflict of policies. Some combination of the proposed solutions is obviously required.

¹ *A Foreign Economic Policy for the United States*, Chicago, 1954, pp. 68-69.

B. FREE MARKET ECONOMY WITHOUT DIRECT PAYMENTS.

From most economists' point of view, the ideal solution to the conflict of policies would be for the United States to end governmental intervention in the agricultural commodity market and to allow free market conditions to once again reign supreme. Under such conditions the domestic price of agricultural commodities would not have to be protected by measures restrictive to international trade.

A free market economy would also eliminate the present misallocation of resources in agriculture. When agricultural commodity prices are fixed above the free market level by high-level price supports they do not direct the movement of resources within agriculture or between agriculture and non-agricultural enterprises in accordance with the dictates of consumer choice. In other words, certain segments of agriculture are guarded against the competition of more efficient segments of agriculture and more efficient domestic industries for the resources utilized by the protected segments of agriculture. Resources are thus employed inefficiently. For example, as the then Assistant Secretary of State for Economic Affairs William L. Clayton pointed out during the hearings on the Trade Agreements Extension Act of 1945 before the House Committee on Ways and Means, there is a great deal of land producing cotton that should come out of cotton and go into something else because it is not efficient cotton-producing land. Similarly, the 1956 *Economic Report of the President* states:

"The persisting decline in farm prices and incomes reflects a continuing imbalance between farm output and its ultimate disposition. The imbalance is to be traced largely to the technological revolution in American agriculture, changing domestic demands for farm products, the expansion of agricultural production abroad, and the repeated extension of wartime price-support levels long after the end of World War II." ²

When the domestic prices of various agricultural commodities are maintained above world prices, costs in other United States industries are increased and thus the export position of other segments of the economy are hampered. For example, when United States cotton and wool prices are above world prices, United States cotton and wool textiles frequently find their export markets lost to other nations.

² P. 54.

A free market economy with no direct governmental action to increase or stabilize farm incomes would not, however, assure the realization of the objective of the agricultural policy of the United States and consequently holds little appeal for United States farmers and their representatives in Congress notwithstanding Secretary of Agriculture Benson's belief that United States farmers are seeing in constantly increasing numbers the necessity for the elimination of artificial supports.³ To discontinue all price supports and revert to a free market economy with no direct governmental action to increase or stabilize farm incomes is, therefore, politically unpalatable. Senator Hickenlooper of Iowa spoke for much of the Legislative Branch of the Federal Government when he stated in the Majority Report of the Randall Commission⁴ that:

"While I am confident the Commission does not intend to recommend the elimination of Government farm price supports, I want to make my position on this point perfectly clear.

Certainly we need to reconcile the conflict which now exists between the present rigid price-support programs and our foreign economic objectives...

A sound price-support program most surely should take into account the farmers' interest in maintaining large export outlets and in balancing trade at a high level on a basis that is mutually advantageous to the United States and the countries with whom we trade."⁵

The last paragraph of the above quote is clearly double talk. Senator Hickenlooper wants the farmers to eat their cake and have it also!

One might surmise that Representative Cooper of Tennessee was also conscious of the farm vote when he stated in the same report:

³ *Herald Tribune* (European Edition), September 8, 1955, p. 9.

⁴ The Randall Commission is the popular name for the Commission on Foreign Economic Policy which was established by Congress in the Trade Agreements Extension Act of 1953 at the request of President Eisenhower. Clarence B. Randall, formerly Chairman of the Board of Inland Steel, was chairman. The Commission was directed to:

"...examine, study, and report on the subjects of international trade and its enlargement consistent with a sound domestic economy, our foreign economic policy, and the trade aspects of our national security and total foreign policy; and to recommend appropriate policies, measures, and practices." *U.S. Statutes at Large*, Vol. 67, 1953, p. 474.

The Commission submitted its Majority Report to President Eisenhower and Congress on January 23, 1954. The Report recognized the existence of a conflict between the farm and foreign trade policies of the United States, but it did not suggest means of resolving the conflict of policies.

⁵ Commission on Foreign Economic Policy, *Report to the President and the Congress*, Washington D.C., January 1954, p. 33.

"I fully realize the importance of export markets to agriculture ; however, I have also supported and voted for our domestic agricultural programs when they were under consideration by the Congress.

I realize that there are instances where our domestic agricultural programs and our foreign trade policy may seem to be in conflict. But it would appear that proper adjustments could be made and that we should not arbitrarily subordinate the role of our domestic agricultural programs to our foreign economic policy.

Our domestic agricultural programs are a reality, and have been, of course, enacted by the Congress and improved as the years have gone by. . . It is my belief that our domestic agricultural programs and our foreign trade policy both are very important to our agricultural interest."⁶

Economists generally recognize that a free market economy must be approached gradually. If the transition to prices at free market levels were made immediately, present government-held inventories would greatly depress prices. Samuel Lubell, a protégé of Bernard Baruch, does not believe, however, that the price mechanism is capable of bringing agricultural production into balance with demand.⁷ He cites as proof the fact that expanded agricultural production was never retired after World War I. Agricultural productive capacity once built up, he argues, is not easily dislodged.⁸

Walter Lippmann ably analyzed the widespread opposition to a free market economy when he wrote in 1934:

"The most rigid elements of the existing system arise from the fact that so many men prefer to live where they have always lived, and to do the kind of work they have always done. The perfectly free economy requires perfectly mobile human beings. But in spite of Adam Smith's revelation, men cling to their homes and their trades, and have a way of becoming highly infuriated when under the pressure of free markets they are compelled to move on. The rigidities which have been introduced into the existing systems, the tariffs, immigration laws, the social regulation and the trade unionism, the tendency to make longterm contracts as to debts, salaries, rents, and efforts to 'stabilize' prices — the whole conglomeration of sins against laissez-faire — are rooted in the conservatism of the human race, in its resistance to quick readjustments, in its dislike of changing its way of life, in its unwillingness, in short, to submit to the compulsions of free markets."⁹

⁶ *Ibid.*, pp. 33-34.

⁷ *The Revolution in World Trade*, New York, 1955, p. 19.

⁸ See below, p. 137, for a further discussion of this point.

⁹ "Self-Sufficiency", *Foreign Affairs*, Vol. 12, No. 2, January 1934, p. 211.

C. FREE MARKET ECONOMY WITH DIRECT PAYMENTS

A more realistic solution to the conflict of policies and one which would realize the objective of the agricultural policy of the United States would be the substitution of direct payments to farmers for present price-support measures. Since prices would be allowed to find their own level, direct payments to farmers would not drive a wedge between domestic and foreign prices and, therefore, would not require measures in conflict with expanded international trade. Direct payments would have the advantage of simplicity and flexibility and would eliminate the need for governmental accumulation of inventories and related disposal problems. A system of direct payments could be administered in such a way as not to create un-economic inducement to agricultural production. Such a system would increase domestic consumption since advances in agricultural commodity prices which result from present price-support programs weaken the competitive position of agricultural commodities.

A system of direct payments to farmers would meet the requirements put forth in a recent editorial in the European Edition of the *Herald Tribune* which stated that:

"What is clearly needed but hard to come by is a substitute for price supports, not just a bidding competition on their levels. We need some rational remedy for the social insanity represented in extreme form by the dairy support program — a program which induces dairy farmers to remove butterfat from milk and put it into butter, which is then stored under government loan until it spoils, while the impoverished milk comes into sharper competition with ersatz products of vegetable oils — the end result of the whole process being inferior diets, relatively high consumer prices, relatively low farm prices, and wasted resources." ¹⁰

Under a system of direct payments to farmers the direct cost of sustaining farm income would no longer be partially borne by the consumer. It would be shifted entirely to the United States Treasury. The total costs to taxpayers for direct payments which would provide benefits to farmers equal to present benefits received would be less than those for present price supports. ¹¹ Much of what the farmer receives under the present price-support programs goes to cover the cost of producing the agricultural commodities sold to the Federal Government and does not add to the farmer's net income. Under a

¹⁰ September 8, 1955, p. 4.

¹¹ See L.D. Howell, "Benefits Versus Costs of Price Supports", *Quarterly Journal of Economics*, Vol. LXVIII, No. 1, February 1954, p. 361.

system of direct payments to farmers the expense of storing government-held surpluses¹² would be eliminated.

Professor Theodore W. Schultz points out that direct payments should be countercyclical in design.¹³ That is, they should be used only in periods of declining aggregate demand to compensate the farmer for adverse movements in his terms of trade. Professor Schultz adds that direct payments should not induce production decisions inconsistent with long-run requirements.¹⁴ Professor D. Gale Johnson argues that direct income payments should be used if general monetary-fiscal policy fails to prevent deflation, unemployment and a destruction of effective demand.¹⁵ He states that:

"Income transfers should be used chiefly in four circumstances :

- (a) To mitigate economic distress arising out of the absolute and differential impacts of depression.
- (b) To aid in adjustments in the supply of labor and other resources in areas where farming provides a low level of farm family income.
- (c) To improve the efficiency with which land resources are utilized and to maintain soil productivity at a desirable level.
- (d) As an incidental adjunct of measures to increase price certainty and stability."¹⁶

The so-called Brannan Plan, never presented to Congress in the form of a bill but merely as a "Statement by Secretary of Agriculture Charles F. Brannan" before a joint Congressional hearing in 1949,¹⁷ incorporated direct payments to farmers. Former Secretary Brannan argued that the price of perishable agricultural commodities should be allowed to find its own level and that the difference between that price and the "fair" or "support standard" price established by Congress should be paid to the farmer in the form of direct income payments.

The plan had justification since present support programs are much costlier and more difficult to apply for perishable agricultural commodities than for the staple commodities because of the high cost

¹² See below, p. 137.

¹³ "Supporting Agricultural Prices by Concealed Dumping", *Journal of Pol. Econ.*, Vol. LVI, 1948, p. 160.

¹⁴ *Loc. cit.*

¹⁵ *Forward Prices for Agriculture*, Chicago, 1947, p. 131.

¹⁶ *Trade and Agriculture*, pp. 93-94.

¹⁷ The statement was presented before a joint hearing of the House Committee on Agriculture and the Senate Committee on Agriculture and Forestry, April 7, 1949. *Congressional Record*, 81st Congress, First Session, Vol. 95, Part 3, April 7, 1949, pp. 4035-4041.

of storage, transportation, processing and surplus disposal of perishable commodities. Also, the demand elasticity for perishable agricultural commodities is generally higher than for staple commodities, and thus the plan would have facilitated maximum increased consumption. The plan would not, however, have done much to resolve the conflict of policies since it would not have altered the present price-support programs for staple agricultural commodities which are the main agricultural commodities to enter into foreign trade. Furthermore, the direct subsidies under the plan would have been at such a high level that production and marketing controls would probably have been necessary.¹⁸

The Bell Report¹⁹ of 1953 recommended direct payments to wool producers and a reduction of tariffs.²⁰ The report stated that increased imports of wool would meet the greater demand for the commodities at the lower price while domestic production would be unaffected. President Eisenhower recommended such action to Congress and his recommendation was approved by the economists who met at Princeton University in February 1954²¹ to discuss the Randall Report.²² The Agricultural Act of 1954 allowed the Secretary of Agriculture to make direct payments to woolgrowers starting April 1, 1955.

In 1939 the AAA admitted that its direct payments to farmers in conjunction with price-support measures²³ were more effective in raising farm incomes than were its price-raising programs.²⁴ Direct payments alone have never been used, however, as a substitute for direct price supports. The United Kingdom recently moved from a policy of direct price supports to direct payments to farmers. It will

¹⁸ See C.A. Hickman, *op. cit.*, p. 7.

¹⁹ The Bell Report is the popular name for the report entitled *A Trade and Tariff Policy in the National Interest* prepared by the Public Advisory Board for Mutual Security. Daniel W. Bell, President of American Security and Trust Company, was the acting chairman. The investigation of the Board was initiated under the Truman Administration. The Board submitted its report to President Eisenhower on February 24, 1953.

²⁰ Public Advisory Board for Mutual Security, *op. cit.*, p. 65.

²¹ Seventeen economists attended a conference on February 4th and 5th, 1954, sponsored by the Center of International Studies and the International Finance Section at Princeton University. The economists discussed what they considered the more important issues raised by the Randall Commission Report. The proceedings of the conference were published in a pamphlet entitled *A Critique of the Randall Commission Report*.

²² International Finance Section and Center of International Studies, *A Critique of the Randall Commission Report*, Princeton, New Jersey, 1954, p. 26.

²³ See above, p. 66.

²⁴ U.S. Department of Agriculture, *Agricultural Adjustment 1937-1938*, Washington D.C., 1939, pp. 139-156.

be well for the United States to give careful attention to this test case.²⁵

Because of political reasons, the possibility of substituting direct payments for existing price-support programs appears highly unlikely. Congress has not favored direct payments to farmers in place of direct price supports. The farmers' representatives have felt that their constituents favor direct price supports because income received from the sale of products at prices bolstered by government price supports appears to them to be more earned than direct income payments. Recent studies in Michigan, however, indicate that farmers do not attach great importance to the method by which they are given support.²⁶

D. OTHER POSSIBLE SOLUTIONS

1. "FORWARD PRICES".

A possible solution to the conflict of policies which has wide backing among economists combines "forward prices" with either direct payments or flexible price supports. "Forward prices" would take cognizance of the role played by prices in guiding production and consumption. They would permit changing price guarantees whereas fixed parity guarantees do not. They would be announced by the Federal Government after a board of economists had studied supply, demand and other conditions.²⁷ "Forward prices" would be announced at least one production period in advance to enable farmers to plan their production in harmony with the announced prices, and they would prevail during the ensuing production period. The announced price for each agricultural commodity would be at such a level as to achieve an output equal to anticipated demand. Demand changes would thus be interpreted to the farmer in time for him to adjust the use of his resources.

Professor D. Gale Johnson argues that any difference between the "forward price" and the actual market price should, in most

²⁵ The Agricultural Act of 1949 stated that the Secretary of Agriculture was no longer authorized to make supplementary direct payments. See above, p. 97. New legislation is therefore needed before the United States can follow the United Kingdom's lead.

²⁶ Dale E. Hathaway, E.E. Peterson and Lawrence Witt, *Michigan Farmers and the Price Support Program*, Technical Bulletin 235, Michigan State College, December 1952. Referred to by John K. Galbraith in his Memorandum for the Commission on Foreign Economic Policy, *The Reconciliation of Farm and Trade Policy*, 1953.

²⁷ The difficulty of forecasting economic conditions and the problem of pressure groups would of course have to be recognized.

cases, be paid to the farmer in the form of direct payments.²⁸ Thus markets would be allowed to clear and no measures in conflict with the trade liberalization movement would be required. The political obstacles to such a solution were discussed in the previous section of this part of the study.²⁹

The alternative to "forward prices" which would prevail during the ensuing production period would be multiple "forward prices" which would vary with actual output. These "forward prices" would determine the flexible price-support levels or direct payments. However, this plan would obviously not resolve the conflict of policies if "forward prices" were above market levels and price-support operations were resorted to. Here again, the use of direct payments would resolve the conflict of policies.

Flexible price supports were recommended by President Eisenhower in his 1954 farm policy message to Congress. At the meeting of economists at Princeton University in 1954 Professor John K. Galbraith stated that the President's recommendations, if carried out, would not appreciably reduce the area of conflict between farm and trade policy since many agricultural commodity prices would still be supported above world market levels.³⁰ Professor D. Gale Johnson felt that the President's recommendations, if carried out, would bring the support level of some important agricultural commodities down to world prices and would thus be a significant step toward reducing the area of conflict between agriculture and trade policy.³¹ The Agricultural Act of 1954 provided for flexible price supports at from 82½ to 90 per cent of parity, depending on supplies, for wheat, cotton, rice, peanuts and corn to become effective January 1, 1955. Before the flexible price supports were put into effect on 1955 crops, the House of Representatives, on May 5, 1955, passed a bill doing away with flexible price supports for these "basic" agricultural commodities. The Senate, however, did not act on the bill before Congress adjourned in August 1955. A bill providing for rigid price supports was passed by Congress on April 11, 1956, but was vetoed by President Eisenhower on April 16. Thus flexible price supports are being tested in practice.

²⁸ *Agricultural Price Policy and International Trade*, p. 20.

²⁹ See above, p. 132.

³⁰ International Finance Section and Center of International Studies, *op. cit.*, p. 25.

³¹ *Loc. cit.* and *Agricultural Price Policy and International Trade*, p. 19.

2. REDUCED LABOR FORCE.

Another avenue of approach to the problem of the conflict of policies would be the reduction of the labor force employed in agriculture. Such a reduced labor force would facilitate a better balance of resources within agriculture, reduced output, and higher incomes for farmers. In such an environment a shift away from present price supports would become more feasible politically.

The output per man-hour and per man employed in agriculture in the United States has increased very rapidly, especially since the start of World War II, because of technological advances. In the early 1800's one man working in agriculture fed himself and three other people. In 1951 he fed himself and about 15 other people.³² Output per man-hour stood at 130 per cent of the 1947-49 average in 1955, an increase of 16 per cent since 1950 and 88 per cent since 1940.³³ The labor force employed mainly in agriculture stood at 9.5 million in 1940. By 1950 it had fallen to 7.5 million. In 1955 it was 6.6 million.³⁴ Still, the index of total farm output continues to increase. It rose 20 per cent during 1939-45, four per cent during 1945-50 and 12 per cent during 1950-55.³⁵

The free movement of agricultural labor to other industries has not solved the problem of the excess labor supply which is critical in some segments of agriculture and in some areas of the United States. As Professor Wilhelm Röpke has pointed out, because of the sociological peculiarity of agriculture,³⁶ selection among producers is less intense in agriculture than in industry, and, consequently, there is a wider range of skill, success, and level of subsistence in agriculture.³⁷ An investigation in the early 1940's showed that the income per farm family in the highest-income county in Iowa was 39 times the income per farm family in the lowest-income county in Kentucky.³⁸ Today, many United States commercial farmers are in

³² Charles F. Brannan, "Problems of Agricultural Production", *Annals of the American Academy of Political and Social Sciences*, Vol. 278, November 1951, p. 120.

³³ U.S. Government, *Economic Report of the President*, 1956, p. 129.

³⁴ Black, "Agriculture in the Nation's Economy", *Amer. Econ. Rev.*, March 1956, p. 3.

³⁵ U.S. Government, *Economic Report of the President*, 1956, p. 54.

³⁶ Men are "born into" farming more than into any other occupation. Farming is more than an occupation. It is a way of life. See Wilhelm Röpke, *International Economic Disintegration*, London, 1942, p. 116.

³⁷ *Loc. cit.*

³⁸ Jacob Viner, *International Trade and Economic Development*, Oxford, 1953, p. 46.

a sound economic position. Land prices are back to their 1952 peak levels, and the farmers' debt situation is generally sound. On the other hand, there are about one million full-time farmers living mostly in the South who sold less than \$ 2,500 of agricultural commodities in 1950.³⁹ Since these farmers produce so little for market, high price supports do very little to improve their economic position. The peculiar labor situation in agriculture has led Don D. Humphrey to state that:

"... restrictionism in agriculture should not be confused with traditional protectionism. ... (It) does not seek to increase America's self-sufficiency or to expand farm employment; its primary objective is to protect the income of people who would be employed in farming in any event."⁴⁰

Professor Lionel Robbins' analysis of the agricultural problem in the United States in 1934 is equally valid today. He wrote that:

"A certain proportion of the producers of the products whose prices have fallen must change over to an occupation the demand for whose products is more elastic. There must be a reshuffling of the labor force — a contraction of the proportion employed on the production of products in relatively inelastic demand and an expansion of the proportion employed elsewhere.

Now there can be no doubt that such a process bears hard on particular producers. A change of this sort necessarily involves the breaking of old associations, the rupture of deep-rooted habits. When its incidence is slow, the transfer can come about mainly by a shift of the younger generation. When it is more rapid, or when it has been delayed by State intervention, the propping up of agricultural prices by subsidy and Government buying, more drastic movements are necessary."⁴¹

Present conditions necessitate more drastic movements than merely a shift of the younger generation. Every possible effort must be made to reduce to a minimum the personal hardships and heartaches that such movements will inevitable involve.

It appears that what is needed in the case of these marginal farmers is the adoption of Professor Michael A. Heilperin's idea, first put forward in 1947, of government assistance to workers to facilitate transfer from one industry to another in cases where tariff reductions might cause injury.⁴² David J. McDonald, President of United Steel

³⁹ Committee for Economic Development, *op. cit.*, p. 30.

⁴⁰ *Op. cit.*, pp. 247-248.

⁴¹ *The Great Depression*, London, 1934, pp. 133-134.

⁴² *The Trade of Nations*, New York, 1952, p. 231.

Workers of America, also recommended such a plan in the Majority Report of the Randall Commission.⁴³ Surplus agricultural labor would be given, at government expense, information concerning job opportunities, counseling, training in other skills and transportation to other areas where they could be assimilated in other industries. The Federal Government would also take measures to attract new industries to low-income rural areas. The Department of Agriculture suggested such a program in a report entitled *Development of Agriculture's Human Resources*. On April 27, 1955, President Eisenhower recommended such a program in a special message to Congress.

Such governmental intervention if carried too far would, of course, not be acceptable to Liberal economists. In order to facilitate the mobility of marginal agricultural labor, however, some governmental intervention is required for, as Professor Philip H. Wicksteed wrote in 1910:

"When we understand that local distress is incidental to general progress, we shall not indeed try to stay general progress in order to escape the local distress, but we shall try to mitigate the local distress by diverting to its relief some portion of the general access of wealth to which it is incidental. To mitigate the penalties of failure, without weakening the incitements to success, and to effect an insurance against the disasters incident to advance, without weakening the forces of advance themselves, is the problem which civilization has not yet solved."⁴⁴

3. REDUCED ACREAGE.

Another similar avenue of approach to the problem of the conflict of policies would be the removal of marginal farm land from production. This action would help to reduce agricultural output and could be coordinated with a program to reduce the agricultural labor force. In 1954 President Eisenhower recommended to Congress that financial aid be given to farmers to enable them to build up the soil fertility of part of their land and thus remove such land from production. His "soil bank" recommendation to Congress on January 9, 1956 was an extension of this and earlier New Deal ideas. The farm bill passed by Congress on May 23, 1956 and signed by President Eisenhower on May 28 incorporated President Eisenhower's "soil

⁴³ Commission on Foreign Economic Policy, *Report to the President and the Congress*, pp. 55-58.

⁴⁴ *The Common Sense of Political Economy*, Vol. I [Repr.], London, 1933, p. 357.

bank" plan. The legislation includes a short-range Acreage Reserve Program and a long-range Conservation Reserve Program. Under the Acreage Reserve Program producers of wheat, cotton, corn, peanuts, rice and tobacco can contract to reduce acreage voluntarily in return for incentive payments. The Conservation Reserve Program will take marginal land out of cultivation on a semi-permanent basis through payments to farmers approximately equal to the rental value of the land. This "soil bank" legislation was praised as "an important step in the right direction" by Mr. A. H. Boerma, Director of the Economic Division of the Food and Agriculture Organization (FAO) in a speech he delivered before the Twenty Second Session of the Economic and Social Council of the United Nations on July 17, 1956.

As World War I and World War II have shown, it is easy to expand agriculture during war periods, but it is difficult to contract afterwards. It is politically difficult to drive workers off the land and to shrink marginal lands. A government program of renting or purchasing land to be withheld from production has several advantages. It would encourage and assist farmers who want to shift to other occupations. It would supplement farmers' incomes without interference in the market. It would completely remove land from production rather than shift it from one commodity to another. The cost to the American taxpayer would be considerable, but so is the cost of present price-support programs. During the past three years the Federal Government has spent \$ 5.5 billion for the acquisition of farm products under price-support programs.⁴⁵ The loss on these purchases may reasonably be expected to be substantial. Present storage costs are roughly one million dollars per day.⁴⁶ The net budget costs of price-support programs have been estimated by the Committee for Economic Development⁴⁷ at from \$ 750 million to one billion dollars per year.⁴⁸

Professor Karl Brandt proposed an indemnity plan to remove from production orchards and vineyards which can not compete with foreign producers without import restrictions and/or export subsidies.⁴⁹ Farmers in these fields where investment of long-term capital per acre is heavy while cost structure and output are inelastic

⁴⁵ Committee for Economic Development, *op. cit.*, p. 27.

⁴⁶ *Loc. cit.*

⁴⁷ The Committee for Economic Development is an organization of 150 leading businessmen and educators which grew out of an idea advanced in 1939 by Paul G. Hoffman.

⁴⁸ Committee for Economic Development, *op. cit.*, p. 27.

⁴⁹ "Long Range Prospects for American Agriculture: International Trade", *Journal of Farm Economics*, Vol. XXXV, No. 5, December 1953, pp. 779-780.

should, Professor Brandt argues, be indemnified by the Federal Government. As Professor Brandt points out, the payment of the indemnity would fall due only once while measures in conflict with increased foreign trade sap the United States' wealth continually.

4. INCREASED DEMAND.

The possibility of increasing the demand for United States agricultural commodities should be given greater emphasis. A recent campaign to encourage greater consumption of dairy products helped to eliminate the 600 million pounds of government-held inventories of butter. Government-held inventories of other agricultural commodities could be reduced by expanding the school lunch program and through distribution to unemployed and low-income families. Some of the government-held inventories of agricultural commodities could be converted to lower-order uses. President Eisenhower's 1956 farm message to Congress wisely recommended extension of the school milk program and increased research to find new uses for agricultural commodities, new crops and new markets.

The fortune of United States agriculture is dependent upon the health of the entire American economy. As long as the United States economy as a whole operates at high levels of production, income and employment, the adjustment required in United States agriculture can be carried through with greatly reduced hardship. Excess farm labor can more easily find employment elsewhere. With rising incomes consumers can afford better diets. The demand for animal products is relatively elastic when compared with other agricultural commodities, and thus rising incomes will mean increased consumption of animal products. This in turn will help expand the overall market for farm resources. Six times as much land is needed to produce a given number of calories of meat, eggs and dairy products as to produce the same number of calories of root crops and cereals.⁵⁰ Therefore, an essential part of the solution of the problems of United States agriculture lies in moderating the fluctuations and promoting the growth of general business.

Furthermore, the fortune of United States agriculture is also dependent upon the health and development of the entire free-world economy. Professor Michael A. Heilperin states that demand for agricultural products can be stimulated:

⁵⁰ Black, "Agriculture in the Nation's Economy", *Amer. Econ. Rev.*, March 1956, p. 37.

"Through development programs, through the expansion of foreign investments and through the maintenance of economic activity in the industrial countries. . ." ⁵¹

5. INDIRECT SOLUTIONS.

Mr. Ben H. Thibodeaux, Director of the Office of International Trade and Resources of the Department of State, argues that the conflict of policies could be made less objectionable in the eyes of foreign suppliers if the United States would agree that restrictions under Section 22 will not be below the volume of imports that would have occurred in the absence of domestic price-support programs. ⁵² The fear in other countries that United States agricultural surplus disposals and export subsidies will disrupt world prices and pre-empt markets normally partially supplied by other countries can, Mr. Thibodeaux further argues, be dispelled by continued consultation with other nations and adherence to a policy by the United States that export subsidies will be limited to such a level as not to pre-empt more than the United States' equitable share of the world market. ⁵³

President Eisenhower's recent declaration that the United States would not dump its governmental-owned agricultural commodity inventories abroad would have been an important encouragement to increased international trade if, soon after President Eisenhower made this declaration, the Department of Agriculture had not stated that after August 1, 1956 the United States would start selling its government-held inventories of cotton on world markets at competitive prices. Other cotton-producing nations will certainly condemn this as dumping. It appears that Congress forced the Department of State and the Department of Agriculture to agree to this action or be forced to take even more drastic action under the provisions of the Gathing Bill. ⁵⁴ If the Gathing Bill were passed, the Secretary of Agriculture would be compelled to export government-held inventories of cotton at prices which would re-establish and maintain United States cotton's "fair share of the world market". Quotas would also be placed on fabrics to protect United States textile manufacturers who would be paying more for United States cotton.

⁵¹ *Op. cit.*, p. 283.

⁵² *The American Farmer and Foreign Trade*, U.S. Department of State Commercial Policy Series No. 146, Washington D.C., 1955, p. 11.

⁵³ *Ibid.*, p. 12.

⁵⁴ "Cutting the Cotton Knot", *The Economist*, Vol. CLXXVII, No. 5872, March 10, 1956, p. 583.

CONCLUSIONS

While the United States champions freer multilateral trade in its commercial policy, its agricultural policy necessitates import quotas and other import restrictions on the one side and surpluses and export subsidies on the other.

This conflict of policies is not solely a domestic problem. It has a direct bearing on the world economy. The fact that other countries also take measures to protect the agricultural segments of their economies does not lessen the impact of the particular actions of the United States in this field. The position of the United States as the leading nation in the world economy makes her actions of paramount importance.

The agricultural policy of the United States and the trade restrictions that this policy necessitates remove the agricultural segment of the nation's economy from the functioning of a free market international economy. Import restrictions prevent other countries from exporting many agricultural commodities to the United States market. Government-supported prices above world market prices keep many United States agricultural commodities from entering other markets. The free movement of world prices in accord with total world supply and demand is therefore disrupted.

Government-held inventories of various agricultural commodities grow, and frequently export subsidies are resorted to in order to move surplus agricultural commodities into foreign markets. The very existence of these inventories tends to depress the world price and to disrupt the movement of the commodities involved in foreign trade channels. Export subsidies play havoc with the functioning of a free market international economy.

Before the conflict of policies can be resolved, United States farmers and their representatives in Congress will have to realize that the required adjustment must be made in the agricultural policy and not in the commercial policy of the United States.¹ Most United

¹ The restrictions to trade liberalization that present price-support programs necessitate are, however, not the only restrictions to trade in the agricultural segment of the United States economy. Some of the most prohibitive import restrictions and highest export subsidies are, or have been, on commodities for which there are no price supports.

States farmers and their representatives in Congress are content with present price-support programs and the restrictions to foreign trade which they entail since they see clearly the immediate gains to farmers while they do not see the consequences of restricted international trade. They are not willing, consequently, to accept a change in farm policy.

Further complicating the situation, vested interests have developed under the protection of price-support programs and import restrictions. These vested interests favor continued United States financial aid to other nations, the cost of which is borne by the nation generally, rather than liberalized trade which would destroy them. Such aid does not begin to compensate for the loss in international goodwill from arbitrary restriction of imports.

Special interest groups in agriculture are very vocal in Washington D.C. and have joined with other protectionist groups in such organizations as the Nationwide Committee of Industry, Agriculture, and Labor on Import-Export Policy. Those who oppose the protectionists have not organized and, consequently, are not able to stand up against the special interest groups. These special interest pressure groups are most effective in the Legislative Branch of the Federal Government since it is here that the rural voice is heard most clearly.² As Henry A. Wallace wrote in 1934:

"The alarming thing in Washington is not that there are so many special pressure groups but that there are so few people who are concerned solely with looking at the picture from the broad, national angle. Most Congressmen and Senators, it seems, are of necessity special pleaders for a particular region."³

Mr. Wallace argued that it was therefore up to the Executive Branch of the Federal Government to consider the national interest.⁴ He did not suggest how the Executive Branch could act without congressional support, and, indeed, it can not. The informal "Farm Bloc" has had a virtual power of veto over the Roosevelt, Truman and Eisenhower Administrations since no administration proposal could get through Congress without its support. The defeat of the Brannan Plan and the neutralization of President Eisenhower's "soil bank" proposal in the first farm bill passed by Congress in 1956 are proofs of this fact. As Representative Burdick of North Dakota pointed out in a recent newsletter to his constituents:

² See above, p. 37.

³ *New Frontiers*, p. 67.

⁴ *Loc. cit.*

"As long as Congress says 'no' it makes no difference what the President and his 'hired man' propose... (Secretary Benson) cannot destroy farm price equalization even if he had the desire to do so." ⁵

Immediately after the war it was generally assumed that high-level price supports would be discontinued as soon as the psychological transition to peacetime conditions had been completed. ⁶ This assumption has been proven incorrect. Senator Millikin of Colorado voiced the present opinion of the informal "Farm Bloc" when he stated in the Randall Report of 1954 that:

"If the point is that we must tear up or radically remake our domestic agricultural programs and shape them to fit the various proposals in this section of the report, including those opposing support price programs, then I cannot go along..."

As I see it, we must first of all safeguard our agriculture at home..." ⁷

In 1934 enough senators and members of the House of Representatives realized that the trend of ever-increasing tariffs had to be reversed, and Congress delegated to the Executive Branch for a period of three years the detail of tariff making. It would be naive, however, to think that Congress would ever delegate the making of farm policy to the Executive Branch. The Committee for Economic Development recommended that an Agricultural Stabilization Board be set up to determine "key matters of policy" as far removed as possible from political pressures. ⁸ Such a board would have little area in which to manoeuvre, however, since present congressional laws spell out rather specifically what action must be taken. Furthermore, legislative control of farm policy has not stopped with the enactment of laws. Congressional appropriation subcommittees, which have been especially susceptible to pressures of special interest groups, have used the appropriation process as a channel for reviewing and controlling administrative policy. The only realistic attack on the conflict of policies is to attempt to convince the members of the United States Congress and their constituents on the farms that expanded foreign trade is not only in the nation's interest but also

⁵ As quoted by Robert Engler in "What Remedies Will Congress Choose", *The New Republic*, Vol. 130, No. 4, January 25, 1954, p. 13.

⁶ Galbraith, "Economic Preconceptions and the Farm Policy", *Amer. Econ. Rev.*, March 1954, p. 40.

⁷ Commission on Foreign Economic Policy, *Report to the President and the Congress*, p. 80.

⁸ *Op. cit.*, p. 34.

in the farmers' general interest, neither of which should continue to be sacrificed at the altar of special interests.

In a recent survey made in several counties in Michigan, only one-third of the farmers polled understood the price-support program. Those who understood the program were preponderantly opposed to it. The other two-thirds of the farmers polled, those who did not understand the price-support program, were preponderantly for it.⁹ This would tend to indicate that money spent on a program to inform farmers of the consequences of direct price supports would be money well spent.

Most United States farmers do not realize that a high level of foreign trade is in their general interest for several reasons. First, export markets are needed for United States farm products produced in excess of domestic requirements. Imports will provide the required dollars for these exports. Second, increased international trade may contribute to greater price and income stability for agriculture. Broad markets and supply areas mitigate the effects of supply changes in any one area since they are frequently offset by opposite changes in other areas. Third, greater freedom of trade can contribute to a higher standard of living for farmers by achieving a more effective use of resources. Fourth, exports of factory products provide employment and thus broaden the domestic market for farm products. Francis B. Sayre concisely expounded the farmers' general interest when he wrote in 1936 that:

"Economic nationalism is the American farmer's worst enemy. His dire need is increased foreign markets in which to sell his surpluses. Upon this he must insist. And until this is secured to him, the fundamental farm problem of America never will be solved."¹⁰

In 1952, for example, agricultural commodities representing approximately 30 per cent of the value of agricultural marketings of that year were dependent to a highly important degree upon export markets.¹¹ Consequently, the Randall Report stated that:

"In the application of import restrictions on farm products, the level of those restrictions should be set with full regard for the effects on overseas buying power and the possibility that such restrictions may lead to retaliation and may be self-defeating."¹²

⁹ Black, "Agriculture in the Nation's Economy", *Amer. Econ. Rev.*, March 1956, p. 43.

¹⁰ *Trade Agreements and the Farmer*, Department of State Commercial Policy Series No. 25, Washington D.C., 1936, p. 20.

¹¹ Commission on Foreign Economic Policy, *Report to the President and the Congress*, p. 28.

¹² *Ibid.*, p. 32.

Under the present import policy of the United States, which is based on the concept that imports must be prohibited if they injure a domestic industry producing the same or directly competitive products, there is little scope for increasing imports.¹³ The import policy of the United States should be based rather on the concept that the object of trade policy is to strengthen the national economy, to increase aggregate domestic production, and to raise levels of real income and standards of living in the economy as a whole. Senator Milliken expressed the present congressional opposition to this concept when he stated in 1949 on the floor of the Senate that:

"There is nothing in the Reciprocal Trade Agreements Acts of 1934, and there is nothing in any extension of it that makes the reciprocal trade system a vehicle for obtaining 'the best possible use of domestic resources'...

I believe the general opinion around here is that reciprocal trade should deal with commodities after they are produced... that those administering the system have not been charged with responsibility... of judging whether to grant or deny concessions on the ground that the particular commodity represents the 'best', 'good', 'indifferent' or 'bad' use of our domestic resources."¹⁴

The agricultural and commercial policies of the United States have been independently formulated, and agricultural policy has not been formulated with particular foreign policy objectives in mind.¹⁵ Where the agricultural and commercial policies have conflicted, it has been the commercial policy that has been subject to piece-meal alteration. By replacing this short-term policy making in airtight compartments with coordinated long-range policy making, the need for piece-meal alterations would be eliminated since through coordinated formulation of the agricultural and commercial policies potential conflicts can be anticipated and circumvented.

A lesson that the United States should have learned from the present conflict of policies is that none of her policies is wholly

¹³ The so-called "peril point" and "escape clause" provisions spell out this policy. The "peril point" provision requires the Tariff Commission to determine in advance of tariff negotiations the maximum concession that, in the Commission's judgement, can be offered without injury to a United States industry. If the President rejects the findings of the Tariff Commission he must explain his actions to Congress. The "peril point" provision first became law in the 1948 extension of the Reciprocal Trade Agreements Act. It was eliminated in the 1949 extension of the Act but restored again in 1951. See above, pp. 98-99 for "escape clause".

¹⁴ *Congressional Record*, 81st Congress, First Session, Vol. 95, Part 10, September 8, 1949, p. 12651.

¹⁵ See U.S. Government, *Report to the President on Foreign Economic Policies*, p. 84.

national. All policies are "national" in the sense that they are intended to promote the interests of the nation. On the other hand, even United States domestic policies, which on the surface appear to be wholly national, have international repercussions in the world of today. Almost all of the attempts that the United States has made to solve the agricultural problem during the last quarter century have led inevitably into problems of foreign policy. The waiver to the General Agreement on Tariffs and Trade is a case in point.¹⁶ The significance of the United States' actions which necessitated this waiver is very great indeed, for, as the Bell Report of 1953 stated:

"When the United States fails to meet the obligations it has accepted under an international agreement, it invites retaliation detrimental to American industry and agriculture. Far more important, it sets a precedent for other countries to terminate unilaterally the rights of the United States in other international agreements. If the foreign policy of the United States is to achieve the objective of strengthening and uniting the free world, there must be no doubt whatever that this country stands by all agreements into which it has entered, whether or not they appear to be convenient to any group of domestic producers."¹⁷

Industrialization generally brings in its wake a loss in a country's comparative advantage as a producer of certain agricultural commodities. This is true even for a country as richly endowed with natural resources as the United States. As industrialization expands, the costs of the factors of production are bid up to a level at which producers of some agricultural commodities are unable to compete with the farmers of less industrialized nations. Consequently, the producers of these agricultural commodities must either be protected from foreign competition or they must shift to other crops or other occupations. Most Western European nations faced this situation in the nineteenth century. England adopted a free trade policy with the result that she became predominately an industrial nation and imported most of her agricultural commodity needs from abroad. Belgium and Holland and, for many years, Switzerland, followed a similar course.¹⁸ Germany, France, and other European nations chose to protect their farmers from foreign competition.

The Bell Report recommended a policy that the United States should follow. The importation of agricultural commodities whose

¹⁶ See above, p. 17.

¹⁷ Public Advisory Board for Mutual Security, *op. cit.*, p. 65.

¹⁸ The free trade policies of these nations during the nineteenth century were reversed in the twentieth century with a consequent loss to their economies.

domestic production is not sufficient to meet domestic needs at prices comparable with imports should not be restricted "in such a way as to force consumers to do without the product, use a substitute, or pay a higher price".¹⁹ The Bell Report stated that:

"The trade policy of the United States should recognize that this country is a natural exporter of some food and agricultural products and a natural importer of others. The interest of American agriculture and the American economy is to see that trade in these products flows more freely and with a minimum of restriction imposed by governments. The principles guiding such a policy call for unrestricted opportunity for the normal development and expansion of production of those commodities in which the competitive position of American producers is strong."²⁰

The only segments of agriculture that would be hurt by a freer trade policy would be those in which the United States is a high-cost producer. Crops in which the United States has a comparative advantage would not be hurt. Consequently, Professor D. Gale Johnson believes that:

"... freer trade would have little or no net direct effect on the number of job opportunities in agriculture. It is likely that the losses in job opportunities in sugar, wool, sheep, beef, butter, cheese, fats, and oil would about offset gains in cotton, tobacco, hogs, corn, fruits and wheat."²¹

To be living in two different worlds at the same time may, and generally does, lead to conflicting policies with confusing and undesirable effects. It is not reasonable, furthermore, to hope that farm surpluses will disappear in a few years and be replaced in due course by a permanent import surplus.²² As the Bell Report stated:

"No single action can be more inspiring in calling forth in other countries the monetary, production, and trade policies they must put into effect, than the reduction of United States trade barriers. On the other hand, failure to resolve the contradictions in United States trade policy can only discourage other countries and lead them to conclude that anything they do will be futile because the United States does not want two-way trade."²³

¹⁹ Public Advisory Board for Mutual Security, *op. cit.*, p. 5.

²⁰ *Ibid.*, p. 23.

²¹ *Trade and Agriculture*, p. 52.

²² Colin Clark predicted that United States farm surpluses will disappear in a few years and that by 1975 the United States will be importing 50 per cent of her agricultural needs. "Afterthoughts on Paley", *The Review of Economics and Statistics*, Vol. XXXVI, No. 3, August 1954, p. 273.

²³ Public Advisory Board for Mutual Security, *op. cit.*, p. 75.

President Eisenhower, in his March 30, 1954 message to Congress stated that:

“If we fail in our trade policy, we may fail in all. Our domestic employment, our standard of living, our security, and the solidarity of the free world — all are involved. For our own economic growth we must have continuously expanding world markets; for our security we require that our allies become economically strong. Expanding trade is the only adequate solution for these two pressing problems confronting our country.”²⁴

Under the most favorable circumstances, resolving the conflict between the agricultural and foreign trade policies of the United States will be a long drawn out process. This conflict, in its fundamental aspects, is a special case of one of democracy's basic dilemmas. Immediate domestic requirements are easy to see. On the other hand, people are apt to be insensitive to considerations that go beyond the local scene. Furthermore, even a solution that does not ignore domestic requirements would still not eliminate the problem of inertia. In a democracy change is usually brought about only in slow, painful steps. The important thing is to decide upon the direction of the movement and the exact location of the ultimate goal.

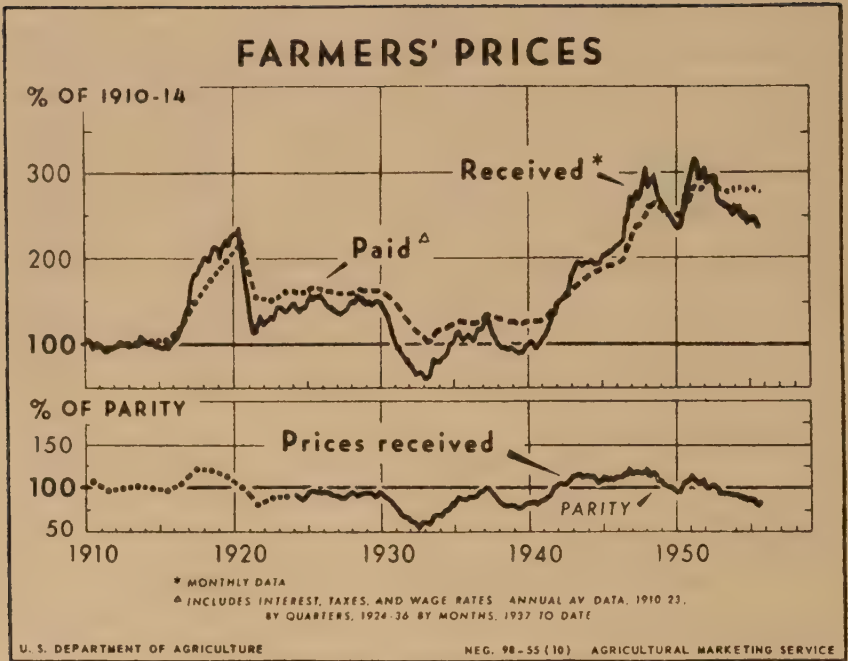
²⁴ *Congressional Record*, 83rd Congress, Second Session, Vol. 100, Part 3, March 30, 1954, p. 4093.

APPENDIX

CASH FARM RECEIPTS CLASSIFIED BY SIGNIFICANCE OF FOREIGN TRADE, UNITED STATES, 1952

Agricultural exports and imports	Cash farm receipts 1952	Per cent of total	US agricultural exports 1952	US agricultural imports for consumption 1952
	Million dollars		Million dollars	Million dollars
1. Agricultural exports - vital	7,297.6	22.5	2,567.7	190.9
2. Agricultural exports - important	5,449.7	16.8	510.1	122.9
3. Agricultural exports and imports - not of major importance ..	16,444.9	50.8	255.1	585.8
4. Agricultural products for which protection usually is desired by producers	2,998.1	9.3	62.2	401.4
5. Important agricultural imports not directly competitive, and sugar	183.2	.6	31.9	3,216.7
Total	32,373.4	100.0	3,427.0	4,517.6

Source : Staff Papers Presented to the Commission on Foreign Economic Policy, p. 156.



Source: Committee for Economic Development, *Economic Policy for American Agriculture*, 1956, p. 4.

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